Department for Business Innovation & Skills

RESEARCH

BIS RESEARCH PAPER NUMBER 126

Investigation into the motivations behind the listing decisions of UK companies

AUGUST 2013

Research Team:

Dr Robert Baldock
Dr Salinder Supri
Professor David North
Pamela Macaulay
Carol Rushton

Centre for Enterprise and Economic Development Research (CEEDR)
Middlesex University Business School

The views expressed within this Report are those of the authors and should not be treated as Government policy.

The authors would like to thank the businesses that assisted this research.

Contents

Executive Summary

Introduction

This report presents the key findings from a small scale survey of predominantly UK owned and based Mid-Sized Businesses (MSBs), covering 17 UK stock exchange listed businesses and 14 unlisted businesses. It examines perceptions about the UK stock exchanges and associated corporate governance and reporting issues. The key findings presented here may not be representative of the wider UK business population, but they may shed some light on issues which are of concern to the wider UK business population.

Profile

The vast majority of surveyed businesses were growth oriented and performing well, which may reflect some survey bias, given the short notice for senior management interviews:

- Four fifths had increased sales turnover in the last year and were trading at higher levels than five years ago. Almost three quarters had increased employment in the past five years (median increase of 25 employees).

- Growth was strongly related to exports and niche UK market activities (e.g. green energy, digital and infocomms). Three quarters export, with growth markets including high tech sales to OECD countries, and increasing trade within emerging markets in the BRIC countries, the Middle East and the Far East

- Two thirds, equally distributed between listed and unlisted businesses, anticipate sales and employment growth in the next year. A high proportion are seeking strategic growth through acquisitions which will help with technological developments, manufacturing and overseas marketing channels

- The sample size is small, with no clear evidence that listed companies have performed any better or worse than unlisted companies during the past five years, or will do so in the near future.

Reasons for Listing

Many of the surveyed listed businesses export, but they choose to list on the UK stock exchanges:

- UK owned businesses understand how UK stock markets operate (they have clear regulations and costs), believe that they have a high reputation and therefore see them as the natural place to list.

- Companies trading extensively overseas noted that the London Stock Exchange’s international market for smaller growing companies (AIM) is internationally recognised, offering ‘lighter touch’ regulation than the US markets.

Businesses are choosing to list for a variety of reasons, reflecting their heterogeneity and this affects their choice of UK stock exchange listing, as exhibited in the survey:

- Six were larger established businesses on the London Stock Exchange (LSE), eight were small cap, younger, smaller Medium sized businesses on AIM and three were established MSBs retaining some private holdings that are listed on the ICAP Securities and Derivatives Exchange (ISDX).

- The vast majority listed to raise funds to invest in business development, such as strategic acquisitions, particularly for overseas market and technical developments (acquiring overseas manufacturers and sales outlets and complementary R&D companies), R&D and restructuring. They believe that UK stock exchanges offer an opportunity to raise the substantial amounts of capital required.

- Businesses also list to: raise profile, enhance brands and increase market credibility world-wide; on ISDX to facilitate share trading; and to provide investment returns to private equity (PE) investors.

- For some young technology and mineral companies, AIM is perceived as their most likely source for raising substantial amounts of risk finance for business development.

- Listing on AIM was a preferred exit option for PE companies until the financial crisis. Since 2008, these companies are preferring trade sales (i.e. sale of the business), which are less costly and time consuming to organise and offer a more certain outcome for investors. When the UK stock markets improve (e.g. increased volume of activity), AIM may become a more viable option again.

- None of the surveyed listed businesses are likely to delist in the near future. They retain their listing primarily to raise funds, if required, and firmly believe that this will be achievable.

- Some listed businesses also referred to this status making it easier for them to access alternative finance, such as less expensive bank debt finance.

Costs of Listing

Joining a UK stock market and maintaining a listing has a cost attached, but all of the surveyed listed businesses felt that the market offered ‘good value for money’:

- The average AIM flotation costs £250,000 (but could be appreciably more depending on broker and underwriting fees) and joining the London Stock Exchange would cost considerably more.

- Maintaining an AIM listing can cost in excess of £150,000 per annum, whilst a full LSE listing can exceed £250,000 pa. Costs will depend on advisor quality and the extent of engagement with market intermediaries (e.g. brokers, financial PR, analysts and asset managers) for promotion.

- The ICAP Securities and Derivatives Exchange “ISDX” has a much lower cost. It is used as a low volume share trading market, but could impose higher costs with the introduction of advisors and more standardised twice yearly reporting requirements.

- Costs can escalate when businesses run into trouble. Ad hoc reporting on AIM costs £25,000 per report and delisting can cost at least as much as listing, which can contribute to company debt and eventual failure.

Businesses that had delisted recently had done so due to performance and restructuring requirements, rather than due to the operation of the market:

- The three delisted businesses stated a preference to restructure in the more stable environment of private equity where they could focus on business management, rather than managing the market and the burden of reporting time and costs.

- It was noted that the AIM market can be volatile and the spiral of decline rapid, once the market catches wind of trouble. These businesses may come to a stage where the costs of maintaining a listing outweigh the benefits.

Changes in the Operations of the Markets

None of the surveyed listed businesses noted any substantive changes in operations of the markets and their relationships with intermediaries, but some mentioned concerns:

- It was stressed that it is essential to find advisors and brokers that understand the business and are able to promote it most effectively to investors.

- The numbers of brokerage agencies in the market are contracting, leading to less choice.

- AIM advisors can be unhelpful when businesses run into trouble, preferring to avoid receiving bad news which they are duty bound to report to the market.

- ISDX was acquired by ICAP in 2012 and is introducing advisors to this exchange and services which aim to increase trading volumes.

Impacts of Market Short-termism

Few of the surveyed listed businesses had experienced any market short-termism, but they noted that it is important to manage market expectations:

- Brokers, analysts and asset managers are short term oriented. They are driven by annualised incentives rather than longer term goals.

- It is important for listed businesses to work closely with brokers and key institutional investors to ensure that they buy into the longer term plans of the company. Twice yearly investor 'roadshows' are an essential element of this.

- Younger, less robust, smaller cap AIM listed businesses and some larger businesses going through restructuring and lengthy R&D phases are vulnerable to short term investor pressures. Businesses with long R&D lead times, such as bio sciences, do require a longer investment horizon and these businesses have to work hard with investors in order to get them to buy into this process.

- There are pressures to provide a suitable balance between shareholder dividends and strategic re-investment.

- Concerns were raised that regular market reporting is potentially counter productive for young R&D companies as it can generate market short-termism.

Corporate Governance

Listing has led to increased levels of corporate governance through oversight boards (e.g. audit, remuneration and nomination committees) and also reporting. These activities are largely viewed as necessary forms of accountability to instil shareholder confidence:

- Most accept that there will be increasing reporting requirements for carbon emissions reduction, new narrative reporting requirements, International Financial Reporting Standards (IFRS) and general market standardisation.

- Simplification of reporting would be welcomed. It is the 'light touch' of AIM that attracts smaller cap businesses to list in the first place.

- Some listed companies complained that the level of financial reporting has increased in recent years, beyond what is necessary.

- Unlisted Public Limited Companies (Plcs) and larger companies operating in high risk sectors, trading overseas or with government departments are involved in high levels of reporting for market credibility, whilst private equity (PE) backed businesses undertake detailed financial reporting for investors.

- Listed businesses pay considerably more in reporting costs; LSE businesses can pay £500,000 per annum and AIM businesses upwards of £100,000 pa, whilst smaller unlisted businesses can pay less than £20,000 pa for reporting.

- Four fifths indicated that an independent audit adds value to the business, helping with market credibility and investor confidence.

Deterrents to Listing

There is a marked dichotomy between listed businesses and unlisted businesses which strongly reflects the different management philosophies of these types of businesses with regard to business development, raising finance and investor relationships:

- Listed businesses are not deterred from listing by the current levels of reporting and costs involved in remaining listed, viewing the markets as providing good value for money and are unlikely to delist in the near future.
- Unlisted companies and those that have delisted are deterred by the apparently high levels of reporting and the amount of time and costs this entails. These views might change if the markets improve and present a more cost effective option.
- An IPO can be costly and take a considerable amount of management time in terms of both the preparation before and the shareholder relationships after.
- Unlisted companies are characterised by long established family and individual private ownership that have no interest in listing, preferring organic growth through reinvesting retained profits, or using bank debt finance.
- Some businesses prefer private equity because the shareholders are small in number, known and therefore easier to work with.
- Some unlisted businesses are deterred by the level of public reporting, particularly with regard to business plans which might assist competitors and directors' reporting which includes salary details.
- Other unlisted businesses are deterred by the stress of managing public reporting and avoiding releasing insider information.

Shareholder Spring

Few businesses had any concerns about the 'Shareholder Spring', indicating that they are too small, or have executive salaries benchmarked with independent remuneration committees providing transparency and investor confidence:

- Concerns were raised that the UK government should not impose a one size fits all proportional cap on the executive salaries of all big business (e.g. LSE listed) across different sectors. For example, comparing manufacturing output with financial services outcomes is not helpful. There are also concerns that salary cap regulations may over time apply to other listed businesses and that they may prevent businesses from recruiting the high calibre executives that could help them to grow.

Board Composition and Diversity

Whilst there was some favourable reception to the Davies Review (2011) from surveyed larger listed LSE companies, the vast majority of respondents were opposed to the introduction of quotas, suggesting that executive recruitment should be based on merit:

- Several respondents acknowledged that diversity in a broader sense, including gender, ethnicity and age, is a good thing and that this would encourage recruitment from a wider talent pool.

- Non Executive Directors (NEDs) make up over half (55%) of the board membership in the surveyed listed companies, compared with 44 per cent in Plcs and private equity backed companies and under one in five (17.5 per cent) of other privately owned businesses.

- Only one in ten members of boards were women in the surveyed companies, with a slightly higher proportion in listed companies (11.5%) than in Plcs and private equity backed companies (10%), which have nearly twice the level of female representation of other privately owned businesses (6%).

Conclusion

Companies list for a variety of reasons including raising funds for business development, profile raising and reputational gains, and providing exit options for investors. UK markets offer good value for money and are deemed to have a high reputation and a light touch regulation, with a “horses for courses” range of markets available.

However, there can be risks for companies running into trouble and some costs around managing (publicly) the greater number of shareholders and their expectations. Some reporting requirements are also unwelcome. These factors represent deterrents to listing but also important in the listing decision is the nature of the company itself and its modus operandi.

1. Introduction

The main purpose of this research is to explore the drivers behind the motivations for UK company listing decisions, and other corporate governance issues. The current UK Coalition Government is concerned with facilitating business growth and understands that Mid-Size Businesses (MSBs), defined as businesses with current sales turnover of between £25m and £500m[1] , are an important driver of growth in the UK economy.

MSBs represent approximately 10,000 UK businesses (BIS, 2011a)[2] , which are established, major employers (51 per cent in the BIS 2010 survey had more than 250 staff) that can make a vital contribution to the UK's economic recovery.

Findings from the recent BIS (2011) research into MSB growth indicated that whilst some MSBs may hold substantial reserve surpluses of funds, they are reluctant to invest in the current market, due to uncertainties and a lack of perceived credible investment opportunities. It should also be noted that few UK businesses use equity funding and even fewer obtain listing status (circa 10% of MSBs are currently publicly listed[3]) and that there is a reluctance amongst many family owned and traditional independent MSBs towards external equity, external management influences and the short term approach to business development that this might entail. On the other hand, CEEDR's BIS (2011) research also demonstrated that some of the most successful UK growth MSBs have been driven by external finance and related Non Executive Director assistance.

The Kay Review (July, 2012) provided a critical assessment of UK equity markets and how they can work more effectively in providing returns to investors and growth for companies.

Kay highlights the problems of short-termism in UK equity markets, primarily focusing on the nature of relationships which arise between market participants and the incentives they face, noting that underlying causes of recent problems are characterised by the decline of trust and the presence of misaligned incentives in these relationships. In short Kay indicates that there has been a growth in financial intermediary activities facilitating the operations of the UK stock exchanges (e.g. asset managers, market analysts, financial PR companies, nominated advisors etc.) which have added costs and diluted the relationship between investors and companies, creating short-term investment horizons and undermining the raison d'etre of establishing longer term trusted investments in UK business growth.

The Kay Review identified a fall in listings in recent years and pointed to the changing role of UK equity markets as a source of finance for companies in the UK, in particular larger companies, suggesting that:

"UK equity markets are no longer a significant source of funding for new investment by UK companies. Most publicly traded UK companies generate sufficient cash from their day-to-

[1] The BIS Mid-sized Businesses Growth Review uses a definition based on turnover, £25m-£500m per year.
[2] BIS (2011a) indicates 10,295 UK MSBs at March 2011.
[3] LSE (2013) February 2013 monthly reporting indicates 720 UK MSBs on the main market and circa 400 on AIM

day operations to fund their own corporate projects. The relatively small number of UK companies which access the new issue market often use it as a means to achieve liquidity for early stage investors, rather [than] to raise funds for new investment."

Kay proceeds to make a number of recommendations which are supported in the Government's response paper (BIS, 2012), including recommendations for good practice codes of conduct for companies, investors and financial intermediaries, in order to promote *"good governance and stewardship as a central, rather than an incidental, function of UK equity markets."*

We note that there has been little recent research undertaken that considers the factors that affect the decisions companies make about how to structure themselves (e.g. remain private, or list in some format, offer new issues etc). This study is intended to contribute to addressing this evidence gap by adding to the analysis of the Kay Review and providing a qualitative study of a range of companies.

Focusing predominantly on UK owned and based Mid-sized businesses (MSBs), this research builds upon the previous CEEDR/BIS MSB research (2010 and 2011), by undertaking an in-depth qualitative examination of MSBs, whilst also including some smaller rapid growth businesses with the capability of becoming MSBs within a short period of time (estimated in this research as within the next two years) and some larger businesses with more than 250 employees which in some cases exceed the £500m MSB annual sales turnover cap. The research considers the various attributes of these businesses i.e. size, sector, location, age and growth aspiration, with a specific focus on variations between companies that are: (i) long term listed; (ii) recently listed; (iii) recently de-listed; and (iv) long term unlisted public and private companies.

2. Methodology

2.1 Scope of the survey

This research focuses on UK owned and based Mid-Size Businesses (MSBs) and expands on other recent BIS MSB studies (2010 and 2011) which have examined the performance and growth of UK MSBs. Where companies are UK based, but owned by foreign parent companies, they are only included if they are independent UK-based profit centres with their own decision making capability. The focus of this research is on MSBs that can make an impact on the UK economy, rather than businesses where decision making is undertaken overseas and for whom a UK listing might be temporary and of little value to the UK economy.

MSBs are defined as businesses with at least £25m sales turnover for their last completed financial year and include a quota of businesses that are large employers with at least 250[4] staff. It also includes some smaller rapid growth businesses that are likely to be MSBs within the next two years and some larger businesses which exceed the £500m sales cap of MSBs.

This research is not intended to be wholly representative of UK MSBs. The goal is to provide qualitative insight into the UK stock exchange listing decisions of a suitably wide ranging sample of UK MSBs in different size groups (by employment and sales turnover), broad sectors (by SIC 2007) and UK regional locations, within the following UK stock exchange listing categories:

(i) **long term listed, for more than five years on a UK stock exchange** (10) - to obtain evidence from longer listed MSBs as to why they remain listed, whether their relationship with the market has changed in recent years and what might make them consider delisting;

(ii) **recently listed, within the last five years on a UK stock exchange** (5) – to examine why these businesses had chosen to list and whether they wish to remain listed;

(iii) **recently de-listed, within the last five years from a UK stock exchange** (5) – to examine why these businesses had delisted and if they consider that this has been a good decision;

(iv) **long term unlisted, for more than five years from a UK stock exchange, including public and private companies** (10) – to examine their perceptions of the UK stock exchanges and whether there are any circumstances in which they

[4] Some reports e.g. IFB (2011 and 2011a) refer to MSBs as medium-size enterprises with 50 to 250 employees.

might consider listing.

The surveyed Mid-sized businesses (MSBs) were purposively selected in order to fill a quota of minimum numbers of interviews (shown in parenthesis) in each of the UK stock exchange listings categories. An initial starting point was to select a random quota sample by broad sector and size (employment and sales turnover), drawn from the pH sampling frame[5] (2009) of 10,628 UK based MSBs. The sampling frame contains details on firm size (sales turnover and employment), broad sector and regional location. It also provided a guide to potential listing through Public Limited Company (Plc) status.

The pH sampling frame proved helpful in finding a broad selection of UK Mid-sized businesses (MSBs) that are either listed or unlisted. However, in order to sample for businesses that have listed or delisted from UK stock exchanges in the last five years, it was necessary to sample directly from the UK stock exchanges themselves. To achieve this, we also purposively sampled businesses from the London Stock Exchange (LSE) and the smaller cap UK stock exchange entry markets of AIM and ISDX. All of these UK exchanges publish information about new business listings and delistings (with the exception of the LSE, which does not publish delistings) on their respective websites, providing the business name, date of listing or delisting and reason for delisting[6] .

It should be noted that the volume of activity on the UK stock exchanges is considerably lower currently and within the last five years, than in the period prior to the recession in 2008. Consequently the numbers of new business listings have not been high and in order to find sufficient numbers of new listings within the time frame of the research, it was necessary to include some small cap flotations (IPOs) where businesses are currently under the £25m annual sales turnover threshold. In these cases the focus was on finding rapid growth businesses which could reasonably be expected to be MSBs within a year or two.

It was also extremely difficult to find suitable UK MSBs that had delisted from UK stock exchanges within the last five years. Here the research focused on finding businesses that delisted by choice, rather than those that were forced to delist because they were going into liquidation. Whilst there were a considerably higher volume of delistings than listings during the past five years[7] , these were heavily populated with liquidations and business failures where the only route to survival was likely to be a buyout. Recent delistings where the business was distressed but was still trading frequently declined to be surveyed because they were too busy, whilst distressed businesses that had delisted longer ago were less likely to still be trading, or were now part of a different business with different management. The opportunity of finding and interviewing a suitable manager from these businesses was very limited within the time frame of the research. A number of delistings were also found to be too small in terms of sales turnover (57% of AIM listed businesses have a market capital value under £25m[8]), or foreign owned (20% of AIM listed

[5] pH (2009) UK MSB database sample used for the BIS MSB Finance research 2009.
[6] AIM reports delistings each month, however, the reasons for delisting provided are quite generic (Annex I)
[7] QCA (2011) indicated a net decline of UK LSE listed companies from December 2007 to August 2011 of 86 (-14%) and a net decline of 336 (-30%) companies on AIM in the same period.
[8] LSE Market Report, December 2012

businesses are foreign owned[9]) and based and were therefore excluded from the survey (see Annex I and research survey note). A further point is that some delistings related to an upgrading of the business from the small cap markets to the full LSE, and therefore provided a better fit with the long term listed category, whilst others were subject to reverse takeovers and remained listed under different ownership.

Within the long term unlisted category, it would have been easy to over populate this with entrenched family businesses, which represent almost half (46%) of Mid-sized businesses (MSBs)[10] , that simply do not have any interest in becoming publicly listed and would have little to say about the operations of the current UK stock exchanges. It was therefore agreed to include a sub category of younger high growth businesses that have accessed private equity and might consider an Initial Public Offering (IPO) as their next option for accessing growth finance. For these businesses, an IPO would be an option that they have considered as a potential exit strategy for their current investors and a further step up the finance escalator. Some of these businesses are not currently MSB size, but all have the potential to be MSB size within the next year or two.

The survey was undertaken by extended telephone interview with key decision makers in each business, typically the Financial Director (FD), Chief Executive Officer (CEO), or Chairman, and took an average duration of 40 minutes. The interviews were mainly qualitative, using a topic guide agreed with BIS (ANNEX II). The survey included key business profile and performance questions to provide contextual background on the businesses before focusing on questions about listing status, including perceptions, motivations and experience with being a UK stock exchange listed company. Additionally the survey also included related questions about corporate governance, executive board structure, reporting and auditing activities and requirements.

[9] QCA (2011) figures for August 2011

[10] Institute for Family Business Annual Report 2011, based on businesses with 50-250 employees p.3

3. Profile of Surveyed Businesses

Business Profile and Growth Key Findings

It should be noted that this research is not intended to be wholly representative of UK MSBs and that those surveyed have been selected in order to provide qualitative insight into specific business groups. The 31 surveyed businesses consisted of:

- 17 listed businesses, of which six had listed in the last five years
- 14 unlisted businesses, of which three had delisted in the last five years
- A high proportion of new technology and R&D businesses (17 cases), including: life/bio sciences, digital/IT, green energy, recycling and infocomms, reflecting potential and new Initial Public Offering IPO sectors in the UK stock exchanges.
- Two thirds are Public Limited Companies (Plcs), the remainder being private limited companies. Four unlisted Plcs, indicated this gave them UK market status, helping with increasing sales, raising finance and undertaking acquisitions.
- Two thirds are MSBs with at least £25m annual sales turnover, nearly half (14) have current sales of over £100m. There are some smaller rapid growth high technology businesses surveyed that are potential or recent Initial Public Offerings (IPOs) on the UK AIM market.

The vast majority of surveyed businesses are growth oriented and performing well, which may reflect some survey bias, given the short notice for senior management interviews:

- Four fifths had increased sales turnover in the last year and were trading at higher levels than five years ago, although recruitment, manufacturing, construction and energy businesses mentioned difficulties experienced in 2009, in the aftermath of the global financial crisis.
- Almost three quarters of the surveyed businesses increased employment in the past five years; median employment increasing by 25 to 125 employees.
- Growth was strongly related to exports and niche UK market activities (e.g. green energy, digital and infocomms).
- Three quarters export, with growth markets including high tech sales to OECD countries, and increasing trade within emerging markets in China, India, Brazil, Middle East, Far East and South Africa.
- Non growers (listed and unlisted), included restructuring and R&D development phases, with expected up-turns in the near future.

The sample size is small, with no clear evidence that listed companies have performed any better than unlisted companies during the past five years, or will do so in the near future:

- Three quarters, evenly split between listed and unlisted businesses, currently have a surplus, with the vast majority indicating that this had increased during the last year.
- One quarter have debts, including listed companies undertaking share buy-back and unlisted companies with pensions deficits.
- Two thirds, equally distributed between listed and unlisted businesses, anticipate sales and employment growth in the next year.
- A high proportion are seeking strategic growth through acquisitions which will help with technological developments, manufacturing and overseas marketing channels.
- Two fifths, evenly split between listed and unlisted businesses, will seek to raise external finance during the next year or so. Several listed companies mentioned that they would consider raising additional funds through new share releases on UK stock markets, particularly where considerable investment in developing new markets, notably overseas, was being pursued.

3.1 Introduction

This section outlines the profile of the 31 surveyed businesses, setting out their listing classification, ownership and business performance characteristics, which form a contextual background to the findings in this research. It should be noted that this research is not intended to be wholly representative of UK Mid-sized businesses (MSBs) and that those surveyed have been selected in order to provide qualitative insight into specific business groups.

A key element of the research is the listing status of the businesses and the extent to which this impacts on their perceptions and use of the UK stock exchanges and the amount of regulation and reporting that these businesses incur. For this reason the findings for the research are presented collectively as a whole for all 31 businesses where appropriate, but also in the following sub groups, which best fit the research frame and goals:

(i) long term listed, for more than five years on a UK stock exchange (11)

(ii) recently listed, within the last five years on a UK stock exchange (6)

(iii) recently de-listed, within the last five years from a UK stock exchange (3[11])

(iv) long term unlisted, for more than five years from a UK stock exchange, including public and private companies (11)

Figures in parenthesis represent the numbers of businesses surveyed in each category. Within the long term unlisted category a group of five young high growth businesses (which may not currently be Mid-sized business size, but have potential to be within the next year or two) have been included, as these businesses are already private equity backed and will be considering the option of an Initial Public Offering on a UK stock exchange within the next year or two. This sub group will also be referred to, where appropriate.

3.2 Trading Age

The survey contained predominantly well established businesses, with two thirds (21 of 31 cases) trading for over ten years and a median trading age of 30 years. The younger businesses surveyed are mainly high technology bio science, digital technology, green energy and recycling companies that have either recently floated, or are considering an Initial Public Offering within the next two years.

3.3 Broad Sector

A wide range of sectors are included in the survey, which reflect both the traditional Mid-sized businesses (MSB) sectors such as manufacturing, wholesale, retail and business and financial services (which represent three quarters of these size businesses in the UK; BIS, 2011), and R&D businesses which make up a large proportion of new business Initial Public Offerings in the UK:

- Eleven R&D businesses, including life/bio science and electronic/IT activities
- Eight manufacturing and construction businesses
- Five financial and business services
- Four energy and recycling businesses
- Two infocomms businesses
- One retail business

[11] Includes a UK owned and based MSB that delisted from the New York Stock Exchange

3.4 Ownership

All of the businesses surveyed are UK owned and based, with the exception of two private limited businesses with European parent companies and a Public Limited Company (Plc) under Canadian ownership[12]. In two cases the UK subsidiary is a separate profit centre. In the third case the company has a substantial subsidiary in Scotland, which is not currently a separate profit centre, but it is considering locating the whole business to the UK in the near future.

The legal status of the surveyed businesses is two thirds Plc and one third private limited (Ltd) status. The bias towards Plc status reflects the large businesses surveyed which revealed four Plcs that are not currently listed and the reason provided for this in all cases was *"that the plc status gives the business more gravitas and presence"*, particularly in the UK market where this status is understood and where this would help with sales, financing and acquisitions.

Half of the businesses have changed their ownership status in the last five years. This has been due in equal measure to undertaking Initial Public Offerings, delisting and taking on private equity investors. For example, one recently delisted company had been bought out by private equity investors and was about to be taken over (again) by 'hedgefund' investors. All of the unlisted young R&D rapid growth companies had taken on new rounds of private equity investment within the last few years.

Six businesses had listed on UK stock exchanges within the last five years where ownership had become totally public listed shareholdings. In all of these cases there was a mix between major institutional shareholders, founders and private individuals. Only one recently listed business exhibited no change in ownership shareholdings and this was where the owners were using their listing for status rather than to raise funds, at least for the current period.

The survey also revealed three Mid-sized businesses listed on the ISDX (ICAP Securities and Derivatives Exchange), which only have a proportion of their shares publicly trading. These businesses also have substantial private holdings for the owners, ranging from 25 per cent to 80 per cent, and in one case with different shareholding status. These businesses' shares see little volume in trading and they appear to use their listing more for status and as an occasional share trading facility, rather than for the purpose of raising funds.

Amongst the longer established long time unlisted businesses, ownership change is rare. These are predominantly family or large majority private shareholder businesses that have seen little change and are unlikely to seek a public listing status.

[12] UK subsidiaries of foreign owned companies were surveyed if they were separate profit centres.

3.5 Employment Size

The employment size of the surveyed businesses ranges from 8 staff in a young energy business with global exploration activities and a market capitalisation of £200m, up to 6,000 in a long established refuse and recycling company. Just over one quarter (9 cases) have 50 or less employees, whilst almost half (14 cases) are large companies with over 250 employees.

3.6 Sales Turnover Size

Two thirds of the businesses surveyed are Mid-sized businesses in terms of their current sales turnover being above £25m in their last reported trading year.

Nearly half (14 cases) of the businesses had over £100m sales turnover in the last year, with the highest reported being £2.5bn and £0.75bn. These include manufacturing, retailing, recycling, business services, financial services and other services activities. Only half are currently publicly listed in the UK, with the largest surveyed business having delisted in the last five years.

Amongst those businesses currently with less than £25m sales turnover, the majority were young rapid growth high technology companies, including some new listings on AIM. These companies predict that they will have annual sales turnover in excess of £25m within the next two years.

One business that had recently delisted, previously had a sales turnover of £60m. At the time of delisting the business sold off their travel agency branch in order to focus on events management activities, resulting in the new private limited company trading at £15m.

3.7 Export Trade

Three quarters of the surveyed businesses currently export. This ranges from nearly one third of surveyed businesses for whom exports represented more than half of their sales turnover for the last financial year, to one quarter for whom exports represented under one tenth of sales turnover. The major exporting businesses are mainly in high technology sectors such as life sciences and digital, but also include an unlisted construction company specialising in water treatment projects and a listed company providing aftercare service for major electrical manufacturers.

Of the one quarter of businesses that are not exporting, the majority are currently unlisted, including a travel and events business that recently delisted. These include two unlisted energy companies, one of which is a fast growing green energy company that may list in the future, and an insurance company.

Almost all of the exporting businesses had been growing their export sales during the past year and planned to continue this growth in the next year or so. It was particularly evident that a number of the faster growing companies, particularly in high technology activities (listed and unlisted), were experiencing rapid growth in the established economies of

OECD countries, as well as strong emerging markets in the BRICS countries, the Middle East and the Far East. For example, a rapidly growing unlisted recycling company had doubled its export sales in the last few years, mainly through increased trade in Scandinavia and the US, whilst two fast growing life sciences companies had grown sales in Brazil, China, Japan and South Africa in recent years. A listed electronics infocomms support company, experiencing 50 per cent sales growth in the last five years and 13 per cent growth in the last year has expanded through targeting emerging markets in Eastern Europe, China, South America, with particular success in Germany, South Africa and Turkey during the last year.

3.8 Business Growth

All of the respondent CEOs, Financial Directors and senior executives claimed that their businesses had been trying to grow during the past five years. In the vast majority of cases these businesses had been trying to increase their sales turnover and profitability by increasing their market reach and capacity. In most cases this required growing and developing overseas markets and strategic acquisitions which could increase capacity and/or facilitate entry into overseas markets.

A key to these business's growth strategies is the establishment of a niche market, for example through R&D to deliver new products and services, or achieving a growing share of existing markets, particularly in the emerging global economies (e.g. BRICS countries). For the minority (8 cases) of surveyed businesses only trading in the UK, the most successful were in niche growth markets such as green energy and recycling, or held substantial and growing shares in established markets with strong or growing demand and high level regulatory entry for competitors (e.g. financial services and funeral services).

In a small minority of cases, where restructuring had been taking place, growth had yet to be fully realised. These included the largest listed company, a business service with £2.5bn annual sales turnover, which had undergone a complete management change and a couple of business that were undergoing a new product development phase.

Actual growth performance during the past five years has been consistently good amongst the vast majority of the surveyed businesses. There is no clear trend that would indicate whether listing status has been more beneficial to growth, although it has assisted several successful acquisitions.

In terms of sales turnover, more than four fifths had increased their sales by at least five per cent on the previous year and a similar proportion were trading at considerably higher levels of sales turnover now than had been the case five years ago. However, a number of businesses (including recruitment, manufacturing, construction and energy businesses) mentioned that trading had been difficult in 2009, in the aftermath of the global financial crisis and reported significant dips in sales revenue that year, as well as a construction company which had experienced significant losses from the cancellation of an overseas project.

One quarter of businesses (8 cases) had doubled their sales turnover during the past five years, with five businesses increasing their sales turnover by more than £60m in this period. These included businesses in green energy, life sciences, retail and insurance. Three of these businesses are listed.

The small minority of businesses reporting reduced sales turnover from five years ago included an R&D electronics company and an infocomms business that had both gone through a technological down cycle and were now growing again on a new technology platform, a manufacturing business that had lost several contracts and undergone restructuring, and a travel agents that had struggled to remain profitable in a competitive and shrinking market.

Almost three quarters of the surveyed businesses had increased employment during the past five years, with the median level of employment increasing by 25 to 125 employees. The most significant employment increase was in a listed infocomms business which recorded 1400 extra jobs in this period. Around 500 extra jobs were created in a delisted diversifying recycling service company, a listed life science business and a listed retail business. Around one in ten businesses had shed labour in this period. The largest reduction in labour was experienced by an unlisted manufacturing business undergoing R&D project transition which had lost 2,000 jobs in the last five years. Another unlisted manufacturing business had undergone restructuring and lost 350 jobs, whilst a listed infocomms business undergoing R&D transition had lost 80 staff. A business service that had recently delisted and sold off an arm of the business employing 160 staff subsequently went into administration with the loss of a further 80 jobs.

The sample size is small and there is no clear evidence that the surveyed listed companies have performed any better in terms of increasing their total assets than private companies during the past five years. Current median total business asset size of surveyed businesses is £31m. Asset values ranged from £1.9m in a rapidly growing young digital imaging business that had floated in the last five years, to £1.8bn in a listed business service and £680m in a long established service company that had delisted in the last five years. Three quarters (14 of 19 cases) of businesses trading for five years providing data had increased their total asset value in the period from 2007, with one in five (4/19) declining in asset value. The greatest increases in asset value were nearly £500m in a recently delisted service company and £400m in a listed business service company undergoing restructuring. A rise in asset value is not necessarily an indication of improved business performance and several businesses, including a young energy company, exhibited increasing asset values based upon investor confidence in the improved future performance of the business, rather than the current business performance. The biggest declines were -£179m in a manufacturing business that had undergone restructuring and -£60m in a travel company that recently delisted, sold off £45m of the business and then went into liquidation.

An important indicator as to how businesses are funding their development and their potential need for external finance is the level of their balance sheet surplus. Three quarters (23 cases) of the surveyed businesses currently have a surplus, with the vast majority indicating that this had increased during the last year. The largest surpluses were recorded in rapid growing technology businesses in recycling (£292m) life science (£17.5m) and green energy (£10m), a manufacturing business (£13.8m), insurance companies (two with over £50m) which have to hold large reserves under the Financial Services Authority FSA solvency regulations and a retailer expanding in overseas markets (£50m). These are represented by a relatively even distribution of both listed and unlisted businesses. The one in seven businesses that have experienced a decline in surplus over the last five years are mainly listed companies, including those that have undertaken a change in technology or some form of restructuring.

One quarter of surveyed businesses do not have a reserve surplus, although several currently have a healthy operating profit. These businesses are carrying debt, in some cases caused by pension deficits, or due to share buy-back via bond investment schemes or large-scale bank loans. These include two brewery/manufacturers (with £45m and £20m debts respectively) a recruitment agency (£21m debt) and a recently delisted travel and events company that had gone into liquidation. Only one of these companies, a chemical business, was a long time unlisted, private business.

3.9 Future Growth and Investment

The surveyed managers were asked for their predictions for business development and growth during the next year or so, whether they would be growth seeking and whether they might require raising external finance, over and above current surpluses generated within the business, to fund business development. It should be noted that for public listed companies there was a degree of caution from respondents, due to concerns about insider dealing and potential share price volatility, should information be released prior to quarterly and half yearly reporting.

Overall, two thirds of respondents (21 of 31) indicated that their business was likely to increase sales turnover during the next 12 months, with a similar proportion indicating that employment is likely to increase and over four fifths (20 of 24 valid responses) indicating that their asset value is likely to increase in this period. These responses are equally split between listed and unlisted companies. Furthermore, the vast majority of surveyed businesses are either expecting to increase their surplus or reduce their debt during the next 12 months.

The surveyed businesses, both listed and unlisted, are highly growth orientated, with the vast majority seeking to grow during the next year or two. Only three respondents (two manufacturers and a business service) suggested that restructuring activities meant that they were unlikely to grow in the next year, whilst a further two AIM listed businesses referred to growth in terms of R&D rather than in terms of sales and profits. It is notable that, although the unlisted businesses are skewed by the presence of a number of young high growth businesses, almost all of the more established private and family owned businesses surveyed also exhibit future growth objectives and expectations. As stated earlier, growth is linked to niche market development, both in the UK (e.g. green energy and 4G infocomms technology) and in overseas OECD and emerging markets. A high proportion of companies are seeking strategic growth through strategic acquisitions which will help with technological developments, manufacturing and overseas marketing channels (e.g. sales offices and retail outlets).

Three fifths of the surveyed businesses will not be seeking external finance during the next year or so. This is mainly due to their having sufficient reserves, but also in a small number of cases because they are currently seeking stability and organic growth rather than strategic acquisitions and major developments.

Those that are likely to need to raise external finance during the next year or so are evenly split between listed and unlisted businesses, although unlisted businesses appeared more certain about their requirements. For example, several unlisted rapid growth high technology businesses mentioned that they would soon require another round of finance, particularly to help with developing trade into overseas markets. Whilst an Initial Public Offering was a consideration, at this stage investment from a joint venture manufacturer, pharmaceutical company, or a private equity venture capitalist with specialist connections to the growth markets (e.g. in the US) was seen as the most likely source. Additionally, an unlisted construction company mentioned that export trade credit guarantees offered by the UK government are an important source of financial underwriting for their large-scale overseas contracts.

Amongst the listed companies several mentioned that they would consider raising additional funds through new share releases on UK stock markets. This was particularly the case where considerable investment in developing new markets, notably overseas, was being pursued.

"It is highly likely that we will raise further funding, through a new share release, to assist our overseas manufacturing and retailing developments." Finance Director of a premium LSE listed manufacturing and retail business.

However, in a number of cases this was mentioned as *"an option if the right strategic acquisition opportunity arises"*, rather than a definite objective.

"We will raise money from the stock exchange depending on the cost of any potentially suitable strategic acquisitions. This is where an ability to raise funds from the AIM exchange comes in and we have not experienced any difficulties is raising funds in recent times." CFO of a life science company.

It was also notable in a couple of cases where it was mentioned that raising finance from banks had become easier once the company had become listed and that their current bank facilities represented a less expensive source of external finance than the stock market.

"The company has access to very good, and cheap, bank facilities. We have access to up to £20m that we can borrow cheaply and pay back the money very quickly, within 12 months." CFO of an AIM listed infocomms business.

In conclusion, the vast majority of surveyed businesses are growth oriented and performing well, which may reflect some survey bias, particularly given the short notice provided to senior management for these interviews:

- Four fifths had increased their sales turnover in the last year and were trading at higher levels than five years ago, although some recruitment, manufacturing, construction and energy businesses mentioned experiencing difficulties in 2009-10, in the aftermath of the global financial crisis.

- Almost three quarters of the surveyed businesses increased employment in the past five years; the median level of employment increasing by 25 to 125 employees.

- Growth was strongly related to exports and niche UK market activities. Stronger UK market activities were in green energy, recycling, digital/IT, infocomms and also the financial services.

- Three quarters export, with growth markets including high technology sales to established OECD economies in North America, Australasia and Western Europe, and increasing trade within emerging markets in China, India, Brazil, Middle East, Far East and South Africa.

- Non growers, both listed and unlisted, included those undergoing restructuring, diversification and R&D development phases, with most expecting up-turns in the near future.

- Four Public Limited Companies that are unlisted indicated that this gave them greater UK market status, helping with increasing sales, raising finance and undertaking acquisitions.

The sample size is small, with no clear evidence that listed companies have performed any better than private companies during the past five years, or will do so in the near future:

- Three quarters, evenly split between listed and unlisted businesses, currently have a surplus, with the vast majority indicating that this had increased during the last year.

- One quarter have debts, including listed companies undertaking share buy-back via bank loan and bond schemes and unlisted companies with pensions deficits and bank loans.

- Two thirds, equally distributed between listed and unlisted businesses, anticipate sales and employment growth in the next year, with over four fifths expecting asset growth and with those carrying debts expecting these to decline.

- A high proportion of businesses are seeking strategic growth through acquisitions which will help with technological developments, manufacturing and overseas marketing channels.

- Two fifths, evenly split between listed and unlisted businesses, will seek to raise external finance during the next year or so. Several listed companies mentioned that they would consider raising additional funds through new share releases on UK stock markets, particularly where considerable investment in developing new markets, notably overseas, was being pursued.

4. Listing Status of Businesses

Business Listing Status Key Findings

- Seventeen surveyed businesses are currently listed on UK Stock exchanges: six LSE, three ISDX and eight AIM; six listed in the last five years (1 LSE, 1 ISDX, 4 AIM).

- Many listed businesses export, but preferred to list in the UK because they are UK based, view UK stock markets as having a high reputation, understand these markets and view them as a natural place to list.

- AIM and ISDX offer an attractive less expensive, 'light touch' regulatory environment for smaller cap public market entry of under £100m.

Businesses choose to list for a variety of reasons, reflecting their heterogeneity, notably in terms of their growth plans and management characteristics:

- The vast majority listed to raise funds to invest in business development, such as strategic acquisitions (notably for overseas market and technical developments), R&D and restructuring (e.g. a more recent LSE listing raised £100m for overseas market development).

- Five businesses used an Initial Public Offering (IPO) to realise investors' returns and this was a preferred Private Equity (PE) investor exit strategy prior to 2007/8 financial crisis.

- Three businesses listed to raise their profile, mentioning the reputation of the LSE and AIM markets. This enhanced a global retail brand and credibility for merger and acquisition activities.

- Two businesses joined the ISDX to facilitate share sales. ISDX businesses only had a proportion of shares publicly trading alongside private holdings ranging from 25% to 80% (in one case with different shareholding status), with low volume trading.

- The choice of UK exchange was mainly driven by market cap size, with those under £100m likely to select AIM or ISDX, with larger caps selecting the LSE which is more expensive and higher profile.

Current listed businesses indicated no intention to delist, although two had undertaken some share buy-back within the last five years. They provided a range of reasons for continuing to use the markets:

- Most businesses retain their listing to raise funds, if required. For a small minority the primary reason is to raise their profile, gain credibility in the market for M&A activity, improve ability to raise cheaper finance from other bank debt finance sources, or simply to facilitate share transactions, if required.

- The general consensus was that UK stock markets are still 'good value' with 'advantages outweighing costs,' and recent increases in reporting requirements were 'necessary and acceptable', although this might be off-putting to potential new entrants.

- Whilst few had experienced short-term market pressures, they acknowledged the need to manage and inform brokers and investors. Some more recent AIM listed businesses also noted the potential for market volatility, particularly if R&D is slow.

- Although highly unlikely, half indicated they could delist through an attractive private buy-out, or if being listed became too onerous and expensive to retain.

- Some AIM and ISDX companies were concerned that main LSE market quarterly reporting could be introduced, which they would find excessive.

- Advisors and brokers play an important gateway role in marketing listed companies to key institutional investors. It is important that they understand the business sector and development plans and are able to promote it effectively.

Five young rapid growth high technology businesses were considering an IPO on AIM in the near future, but in the majority of cases this is not currently seen as a viable option:

- High technology businesses with Private Equity (PE) funding reach a step change stage from R&D to sales and marketing which requires substantial new funding. At this stage they may seek new PE, trade sale or an IPO. Usually, only the latter two options can provide sufficient funding.

- These are UK owned and based businesses viewing the AIM market as their natural place to IPO. Typically a member of the management team has previous experience of an AIM IPO and it is 'a known market' with 'clear regulations' and 'costs'.

- Obtaining substantial US PE investment or floating successfully on a US stock exchange would probably require the business to have a head quarters in the US.

- Since the 2007-08 financial crisis, there is less appetite for investment into high technology IPOs on the UK AIM market, trade sales now being the preferred option.

- Trade sales are a one off event delivering a certain result and are less intensive and time consuming to manage than IPOs.

- IPOs can take half a year to prepare and once listed there are intensive ongoing management requirements in order to maintain and increase the share price. There is a risk that existing PE investors, who may be locked-in for an initial period after the IPO, will not see the returns they seek.

- The main concerns about AIM listing were the initial cost (circa £250,000), the time required in managing the listing and the short term volatility of the market in relation to young high technology businesses.

- There are some concerns that public listing exposes business development plans and can lead to a competitive disadvantage.

Three surveyed businesses delisted in the last five years. The main reasons for delisting were driven by business performance, although in all three cases there were criticisms of the operation of the markets:

- Delistings were from the LSE, AIM and New York Stock Exchange (a UK company with a listed US subsidiary), involving travel, construction and green services.

- Delistings related to restructuring requirements following problems with lack of profitability, pensions deficits and failed projects.

- For these companies, operating privately offered a more stable environment with greater focus on managing the business, rather than managing the markets.

- The cost of failure in the AIM market is considerable; emergency reporting costs of £25,000 per report (on top of annual operating costs of c. £250,000) may be unsustainable and lead to an exit, with costs to find new buyers (c. £300,000).

- AIM NOMADs (nominated advisers) are less likely to help struggling companies. They have a duty to report to the market, so may keep a distance when there are problems.

- All respondents reported that they preferred managing the business without the distractions of the market and that time spent reporting to and managing the market can be to the detriment of managing the day to day operations of the business.

The six long time unlisted companies, preferred to remain privately owned:

- These businesses are characterised by long established family and individual private ownership and are typically not interested in listing.

- Only one company (PE backed) would consider an Initial Public Offering, but currently prefers a trade sale. There is too much uncertainty around an AIM IPO with a market cap of under £50m, with insufficient investor interest to make an IPO viable.

- The main perceived deterrents to listing were: the time and cost - AIM was considered as ‘expensive to enter and manage’; the burden of additional reporting – time and costs and concerns over directors’ reports (e.g. salary disclosure); market short termism and not knowing your investors.

- Regular reporting by a small cap could stimulate short-term problems in the market. Conversely private companies are sheltered, with more time and flexibility to deal with problems, particularly as they typically have a small, well known shareholder base.

- Business development finance was mostly through retained profits, with options for PE and bank finance if required.

- Reduced regulatory burden and encouragement for longer term investment, alongside an improvement in the economy would encourage greater consideration of an IPO option.

4.1 Listing status

This chapter examines the UK stock exchange listing status of the 31 surveyed businesses, focusing on the motivations for listing amongst those businesses that have either already listed or are planning to list in the near future. The reasons for recent delistings are also examined, before finally considering the perceptions about listing of private and public companies that have never listed.

Table 4.1: UK Stock Exchange Listing Status of Surveyed Business

Category	No. (Col. %)	Description
LSE Premium status	5 (16%)	1 listing in last 5 years
LSE Standard status	1 (3%)	No equivalent main board ISDX listings
ISDX and AIM	11 (35%)	8 AIM, 3 ISDX, 5 listings in last 5 years (4 AIM, 1 ISDX)
Public Limited Companies (Plc) not listed	4 (13%)	1 delisted in last 5 years
Delisted Private Limited companies	2 (6%)	Both delisted in last 5 years
Private Limited Companies unlisted	8 (26%)	5 are high tech rapid growth considering IPO soon
Total	31 (100%)	17 listed, 14 unlisted, currently

Note: LSE = London Stock Exchange
ISDX = ICAP Securities and Derivatives Exchange
AIM = Alternative Investment Market

Table 4.1 sets out the listing status of the surveyed businesses, indicating that just over half (17) are currently listed businesses. Six businesses are currently listed on the full London Stock Exchange (LSE), where larger cap businesses generally reside. Five businesses are premium listed and indicated that they are paying for a full listing service in order to maximise their exposure in the market. The median size of the premium listed LSE businesses was £215m sales turnover for the last completed financial year. The largest of these companies is a business service with an annual sales turnover of £2.5bn. The other surveyed premium LSE listings include manufacturing, retailing, high technology and personal services businesses.

Eleven businesses are currently listed on the Alternative Investment Market (AIM – 8 businesses) and ICAP Securities and Derivatives Exchange (ISDX – 3 businesses). AIM and ISDX are typically smaller cap markets, suitable for younger and smaller businesses seeking an initial experience of public listing. As such, they offer a more flexible, less regulated and lower cost entry into the public market than the LSE. The median size of these businesses was £25m sales turnover for their last completed financial year, with the ISDX listings being considerably larger manufacturing and service sector businesses (median £96m). A number of the AIM businesses surveyed are currently below MSB (Mid Cap) size (£25m) and this is reflective of the survey bias towards recent listings in the last five years, with half (4) falling into this category. These newer listings are in high technology life sciences, electronics and digital activities and mineral exploration sectors, which are reflective of the new UK businesses listing on AIM in recent years[13]. However, the surveyed AIM businesses also include larger MSBs, including in infocomms (£140m) and life sciences (£98m).

Two surveyed businesses have delisted from UK stock exchanges during the last five years and a further business (never listed in the UK) had a subsidiary company delist from the New York stock exchange in this period. One of the UK delistings is a very large rapidly growing service business with approaching £0.8bn sales turnover that was bought back into private equity. The other recent UK delisting is a travel agency MSB (£60m) that delisted and sold off part of the business in what eventually proved to be an unsuccessful survival strategy.

Finally, there are eleven businesses that have never listed on the UK stock exchanges. These consist of some long established large family and individual owned businesses which have never considered raising private or public equity, such as an energy company trading for 77 years with a sales turnover of £38m and a chemical manufacturer trading for 35 years with annual sales turnover of £65m. Additionally, the unlisted category includes a group of five high technology rapid growth businesses that are currently funded by private equity and which are likely to consider an Initial Public Offering option within the next year or two. There are also four currently unlisted businesses which are Public Limited Companies (Plcs), for whom this UK legal trading status is viewed as beneficial to their trading profile.

[13] One quarter of UK company AIM listings in 2012 were in high technology sectors with a further quarter in mineral and mining activities (AIM 2012 Monthly Fact Sheet, December).

4.2 Listed Businesses: Motivations and Details of Listing

Seventeen surveyed businesses are currently listed on UK Stock exchanges, including six LSE, three ISDX and eight AIM, with six of these businesses listing within the last five years (1 LSE, 1 ISDX, 4 AIM). No businesses mentioned being dual listed on other exchanges and only one respondent (a UK based personal services business) mentioned being currently listed on another European exchange in Berlin, but "… this was not authorised and not paid for, so could have been an administrative error."

As many of the surveyed listed businesses trade extensively overseas (exports represent at least 30 per cent of trade in 8 cases) they were asked why they had chosen to list on a UK stock exchange. The main response was that the business was UK owned and based and that a UK stock exchange was a natural place for them to float. One Chief Finance Officer (CFO) of a life science business mentioned that "The reputation of the UK AIM market was important for our business development." Several respondents also mentioned that the UK small cap exchanges (ISDX and AIM) were natural starter exchanges for their Initial Public Offerings, as they were "light touch and relatively inexpensive."

4.2.1 The main reasons for listing

Table 4.2 Reasons for UK Stock Exchange Listings

Reason	No.
To fund acquisition	6
To raise funds to realise previous investor returns	5
To fund R&D development	4
To raise the company profile	3
To fund company restructuring	2
To facilitate existing investor share trading	2
To fund physical capital investment in plant and machinery	1

A wide variety of reasons were provided for why the surveyed businesses had listed on UK stock exchanges. In the vast majority of cases the main reason for listing was to raise funds either to buyout existing investors or to develop the business, most notably through funding acquisitions and R&D. In a minority of cases it related to raising the profile and status of the business, or simply to facilitate easier share transactions (e.g. in the case of two manufacturing companies listed on ISDX for over a decade). Whilst one respondent from a long time premium London Stock Exchange listed business was unable to provide an accurate response, the rest had clear objectives in mind as to why they had listed.

The most frequent response was to raise finance for strategic acquisitions, particularly to facilitate business growth through acquiring new technologies, or access to new markets, which in a number of cases were overseas. The response of a large manufacturing and retailing business that listed in the late 2000s serves as a good example:

"The company chose a full LSE market listing in order to raise finance to pay off the existing investors and to raise funds for business development. The company invested in a number of retail stores in South Africa at this time and a subsequent share offering meant that the company netted almost £100m, within a couple of years, for overseas acquisitions and company development."

Almost one third of currently listed surveyed businesses floated in order to raise funds to buy out their existing private investors and almost a quarter were seeking funding for R&D, which in the case of young high technology companies was likely to be towards the later stages of the R&D process, having already received initial seed funding and private equity investment from business angels and venture capitalists. A life science business CFO provided a typical response which encapsulates their main reason for floating in the mid 2000s and the additional advantages that they perceived from this:

"The company listed in order to raise £15m in capital, primarily to repay the PE investors and offer them an exit. Listing on the market has also helped the company to grow through business development, acquisition, R&D and growth, specifically into the US market."

Two (out of four Initial Public Offerings in the mid 2000s) companies mentioned that IPOs were the preferred exits of their private equity investors during the mid 2000s:

"The main reason was to buyout the private equity investors who had invested in and run the company for the previous five years. A full LSE IPO was their preferred exit." CEO of a personal services business.

Three respondents specifically mentioned raising their company profile through listing and it was acknowledged that the UK stock exchanges have a good reputation. The most prominent company was a full London Stock Exchange LSE premium listed retail business with global sales. This business has a very distinguished brand where raising the company image was seen as particularly important. In the other cases raising the company profile was more important within the industry, giving *"credibility to joint venturing and M&A activity."*

Two respondents mentioned listing as a vehicle for raising funds to restructure the company. This included a large employment agency which listed on the ISDX – (ICAP Securities and Derivatives Exchange) in the late 2000s that required restructuring during the tough period when the global recession was setting in. The CFO of a life sciences business also specifically mentioned that part of the £15m raised from their AIM IPO was for investment into new plant and machinery.

In terms of the choice of which UK stock exchange to select for their IPO, this was dependent largely upon the size of the market capitalisation, with smaller cap businesses of under £100m typically choosing AIM or ISDX. Several respondents also mentioned that they preferred the "light touch" of the smaller cap markets, with less reporting required. In a minority of cases, since there was little volume of trading or intention for this, there was also a desire for a less expensive option.

4.2.2 Likelihood of delisting

None of the listed companies exhibited any likelihood that they would delist in the near future. There was unanimity of opinion that the respective UK stock exchanges were operating effectively for the purposes of the surveyed businesses. As presented, the surveyed businesses have a range of reasons for using UK stock exchanges and their choice of exchange is reflective of these reasons, along with the extent to which they are prepared to pay for using these markets. For example, those businesses seeking high volume trading and raising finance from the markets are prepared to pay for high quality financial intermediary services such as top level NOMADs (nominated advisors) and brokers and premium LSE listings, whilst those that require a light touch presence (in some cases without NOMADs), minimal reporting and cost requirements prefer the ISDX. In most cases the businesses retain their presence on the stock exchange because it offers them the opportunity to raise funds, if required. In a small minority of cases it is highly unlikely that the business will seek to raise finance from the exchange. However, their presence on the exchange is seen as raising the profile of the business, providing credibility in the market for M&A activity and assisting in raising cheaper finance from other bank debt finance sources, or in simply facilitating share transactions, if required.

4.2.3 Share buy-back

Only two businesses had bought back public shares. In one case 38 per cent had been bought back during the past five years and this had been financed through a bond investment scheme, whilst in another case 6 per cent of shares had been bought back in this period using bank debt finance.

4.2.4 Factors which might lead to future delisting

When asked whether any factors might lead the business to delist in the future, around half indicated that this could happen, but in most cases it was seen as highly unlikely within the foreseeable future. The most frequently mentioned reasons for delisting were through a private buy-out, or if the exchange became too onerous and expensive to remain on. Three respondents stated that the right type of private buy-out offer could lead to delisting, but this was not likely to occur and one respondent was particularly against this as it could lead to heavy financial gearing. Three respondents stated that if the exchange became more onerous and expensive to maintain, they would consider leaving. These three referred to light touch reporting and the relatively low cost of having a presence on the ISDX, which in some cases does not require a NOMAD[14] . There were some concerns that there is a move towards more reporting and that, for example, ISDX and AIM might change from half yearly to quarterly reporting. It was noted by the CFO of a manufacturing business that had been listed on ISDX for several decades that the exchange had been bought by ICAP in 2012 and that there was a move to bring in advisors and generate more volume of share trading, none of which suited them. The following points were raised:

"First, the company, as long time listed, does not have to take on an external advisor, although ICAP has introduced the need for this. This would cost at least £30k per year.

[14] ICAP have introduced advisor requirements, but exempted some long established ISDX companies.

Second, ISDX recently introduced the idea of making the company more visible by placing it on 'Crest'. This would involve working with analysts and increasing the volume of share trading. However, since we only use ISDX to facilitate share trading and not to raise funds, this is unnecessary. Third, ISDX generally requires low level twice yearly reporting. Moving towards AIM type reporting with International Financial Reporting Standards would not suit us, but we can see the industry moving to a 'standard' approach in a few years time. Any one of these factors could drive us out of the exchange."

The majority of respondents were satisfied that the markets were operating in a suitable manner and that the "advantages outweigh the burdens." Indeed, most respondents accepted that regular reporting is necessary and that although expensive, "the markets still offer good value for money" and that "you get what you pay for." For example, the more expensive advisors and brokers are generally better placed to promote the business and generate share volume and value. However, it was noted that there is a general trend towards increasing levels of reporting, which will have increasing time and cost burdens. One respondent from a financial services company that has advised on stock exchange IPOs suggested that "some of our clients may well be discouraged by the increasing levels of reporting and cost." It was also expressed that for smaller cap businesses reporting more than half yearly would be unnecessary and potentially counterproductive, stimulating market short-termism. Further concerns were reported about the "unnecessarily elaborate" financial reporting requirements of Interim Management Statements for AIM and LSE businesses and the potential introduction of carbon reporting in the next year.

4.2.5 Market short-termism

The vast majority of the surveyed listed businesses do not appear to have been affected by market short-termism, but several respondents noted that it was a potential problem. Many of the respondents mentioned that they specifically spend time with their analysts and larger institutional investors to ensure that they are on board with the company's plans and made reference to half yearly 'roadshow' meetings with key investors. For the longer established, longer listed businesses, there is typically stability from a core of longer term investors who have bought into the company strategy and ethos.

However, for the younger, more recently listed businesses, there is far more volatility and uncertainty, particularly in relation to AIM listed R&D based businesses. Two CEOs of R&D companies that have listed on AIM within the last five years voiced their concerns:

"There are pressures from investors, because the R&D phase has taken longer than would have been ideal."

"Too many investors are too short-termist, especially with respect to Pharma and Biotech companies on AIM, which are often in the development stage, and so have no immediate products to sell. Such investment often requires much longer investment time horizons."

4.2.6 The roles of advisors (NOMADS)

NOMADS (nominated advisors) have an important role in the operation of AIM and appear to be becoming a requirement for new ISDX entrants. The advisors are a requirement of AIM and operate as a key link between the business and institutional investors, often operating as both broker and advisor. The Kay review found that the performance of NOMADS was ‘patchy’ and could be improved upon.

The general consensus amongst those surveyed businesses using advisors is that it is important to find one that understands and promotes your business effectively. All of the respondents indicated that they had received a reasonable service, with costs ranging from £10k per year for an advisor for ISDX to over £30k per year for AIM advisors. It was noted that this is the starting price and that the advisors are effectively sales people who will take a cut of any deals that they deliver, meaning that they can receive considerable levels of commission, over and above their annual retainer fees. As such, they are important gateways to investors, but there is a considerable requirement on the part of the business management to produce the required due diligence and technical support information. The following comments from the CEOs of two AIM companies underlines these points:

“We are aware that the quality of advisors is important in terms of managing the company on the exchange. The job done by our advisor has been satisfactory, but not in terms of their broker promotional role. It is really important that our brokers promote the company and recently we added another broker in order to get more exposure and promotion in the market.”

“We engaged our broker advisors in 2006 for an initial private offer to the city and raised £4m. At this time it was felt that the brokers did a good job and the markets were very buoyant. They also did an excellent job as the gatekeeper in getting a good list of investors for the IPO. However, they are sales people - and very good at this - the company itself has to produce all the due diligence, technical and legal work with the help of other external professionals. This is of course very time consuming and expensive. It is calculated that our advisor-broker fees and commissions have been £1.25m in total during the last six years.”

A final important point was made by a recently delisted company CEO, who indicated that the quality of NOMADs increases with their price, as this is directly tied into the tier of investors that they can approach, and therefore how much they are likely to raise. The respondent also mentioned that whilst NOMADs are extremely helpful to the business during successful times, their position is anomalous during bad times. This is because they have to report to the markets, so when there is bad news they tend to distance themselves, rather than step in and help out.

4.3 Planning to List

Five young high growth businesses were surveyed as they are already private equity backed and will be considering the option of an Initial Public Offering (IPO) on a UK stock exchange within the next year or two. This section reports on the perceptions of these companies’ CEOs about listing.

These businesses have been trading for between 15 months and eight years, with a median of four years trading, employ between 18 and 150 staff, with a median size of 50 staff, and have current annual sales turnover of between £1m and £60m, with a median sales turnover size of £10m. They are all high technology R&D based businesses operating in the green energy, life science and digital technology sectors, developing products and services which are cutting edge and global leaders, providing new cancer treatments, medical injection techniques and nanotechnology measuring devices. These have been investigated as they are highly representative of the types of innovative technology based businesses that have typically floated on the UK AIM market in recent years, with several of their respondents mentioning that 'Abcam', which floated on AIM in 2005 and is now a £100m sales turnover business, is the UK high technology business model that they aspire to.

4.3.1 Reasons for an IPO

As mentioned, these high growth high technology businesses have all been backed by private equity through various forms of business angel network syndicates, high net worth (HNW) individuals, and private and corporate venture capital. They are now at a stage where their main R&D activity has been completed and market sales development is taking place. For many of the early stage investors the time is arriving, after between three to seven years investment, when they are seeking a return on their investment. At this stage these businesses typically face an option to IPO on the AIM market, or undertake a trade sale. As they are UK owned and based businesses, most would consider the UK AIM market as their first choice for a potential IPO, although one respondent whose main market and main private equity investors are in the US was perfectly happy to relocate their business to the US, if need be. They noted that there is a tendency for US equity investors to require their investee businesses to be based in the US and that managing a presence on a US stock market would be more effective if they relocated. A key point about the UK AIM market is that it is well known and understood by the directors of these companies, as in most cases someone in the management team will have had previous experience of a UK AIM IPO:

"The AIM market has clear regulations, the costs are a known factor and the directors know how this market operates and could be used to generate funds."

During the mid 2000s the Initial Public Offering (IPO) option was taken up by many growing high technology businesses, as there was a strong public investment market and this allowed them to raise funds to buyout their existing private investors and raise further funds for further business growth and strategic acquisition (notably to broaden their technology platform, manufacture, or develop sales). In more recent times, since the 2008 global recession took place, it is apparent that there is less appetite for investment into these types of businesses and the numbers of high technology IPOs on the UK AIM market have declined rapidly. It now appears that the trade sale[15] option is generally preferred, because it is simpler and the perceived amount of work required for a successful IPO is too great for the expected returns. The CEO of a bio science business summarised this change in preference:

"During the mid 2000s the ideal model was to seek IPO within 7-10 years, but since the economic meltdown there doesn't appear to be an appetite for IPOs on markets like AIM. The preferred option now is for a trade sale, as this appears more likely to raise the funds that current investors are looking for. This would involve selling most likely to a US business, but it is quite likely that the research arm in England would remain there."

[15] Trade sales refer to selling the business, often as an option for private equity investment return.

Only one of the currently unlisted high technology businesses surveyed indicated that an IPO was definitely their preferred option in the current economic climate. This business has a clear strategy to remain UK owned and based and will seek IPO funds for acquisition expansion, rather than to buyout existing investors. They have been in consultations with AIM NOMADs and are well aware of the market requirements and the importance of timing, going to IPO in a strong position and avoiding market uncertainties. This respondent gave quite an upbeat statement:

“We remain very keen to proceed to IPO within the next couple of years, but will not be rushed into this. We are aware that the AIM market has been tainted by poor quality ‘pump and dump’ companies [i.e. businesses receiving PE investment and then being placed on the market to realise PE investor returns, but which do not have longer term value or sustainability] that have not proven to be good investments and are keen that AIM maintains high standards. We feel that our company will stand as a very solid high growth company and should do well, as bio market investments are performing relatively well in the current market.”

However, the general consensus among those surveyed is that a trade sale is simpler and easier to manage. Initial Public Offerings (IPOs) can take half a year to prepare requiring due diligence, preparing a prospectus, and intensive work with market brokers, asset managers and PR companies to generate interest in the company. After the IPO there are intensive ongoing management requirements, through continuing to work with market intermediaries, in order to sustain interest in the business and maintain and increase the share price. These businesses want to avoid the risk that their existing PE investors, who may be locked-in for an initial period after the IPO, do not receive the returns that they are seeking. Conversely, trade sales are a one off event and more likely to raise sufficient funds to meet current investors’ expectations. These businesses do not believe that there is the investor appetite in the UK AIM market to raise sufficient funds to merit the considerable effort required to undertake an AIM style IPO. Only one respondent mentioned knowing about a recent high technology IPO on AIM, there have been so few in recent times!

The CEO of the largest and fastest growing of the new high technology businesses surveyed, with a sales turnover approaching £60m, indicated that the UK AIM market would not merit their attention as the volume of trading was low and it would be too much work to sustain market interest, but that once the business achieved a larger cap status (over £100m), a full LSE listing might be more beneficial. However, the CEO also expressed a current preference for private equity investors that he knew and could work well with and a number of critical reasons why public listing might be problematic:

“I don’t like the idea of going public with key business development information. My time is better spent on managing the business, not managing investors’ expectations.”

4.3.2 Perceptions about Listing and key deterrents

It should be stated that the responding high technology business CEOs were all well aware of the implications of UK stock exchange listing and several had previously undertaken UK AIM IPOs with other companies. Their main perceptions about listing centred on issues of management time input into the process and whether the cost burden justified this activity. There was widespread awareness that the average AIM flotation costs £250,000 and that this in no way accounts for all of the internal business management time costs involved in this process. This coupled with concerns about market short-termism represent the major deterrents to undertaking an IPO. Put simply, it could take six months of management time to initiate an IPO, but in order to sustain and increase the share value, this could require a further year of management time, working with advisors, brokers, analysts and financial PR companies to court institutional investors and establish a strong position in the market and avoid any short term wobbles that could undermine them. This also leads to questions about balancing managing the business with managing the market. One CEO encapsulated this position:

"Our analysis of the AIM market is that unless you have a really good initial deal flow, the share price is dictated by external trading and this requires a lot of work with analysts and investors over a sustained length of time – perhaps over a year. Therefore, the outcomes of an IPO are uncertain and market interpretation of business performance can be very different from the reality. Therefore we see that there are inherent risks with the public markets that mean that the timing and management of a flotation has to be just right."

Another CEO respondent also highlighted concerns over short-term market responses to relatively young, early stage businesses:

"An early stage business is fragile and open to loss of investor confidence if it doesn't get contracts, or regulatory processes take longer to clear than expected. This leaves them open to short term losses, which are just too much of a risk in the current market."

Several respondents also mentioned that they are not keen on the degree of market scrutiny and publicity that is involved with being a public listed company and concerns over what should or should not be disclosed. One respondent referred to this as being "personally stressful", whilst another mentioned that they would prefer to "operate under the radar", rather than reveal their activities to competitors. It is notable that this was also raised as a problem for a surveyed high technology business that had recently undertaken an AIM IPO.

In terms of the level of reporting, these businesses are already reporting regularly to their private equity investors, so they do not view the level of reporting work required for AIM as onerous. However, the main concern with reporting is the level of information which has to go into the public domain and the potential for this to trigger market short-termism, particularly if on a quarterly basis, which was viewed as too frequent for young growth businesses.

In terms of the costs and qualities of advisors (AIM NOMADS), there was widespread recognition that these are expensive, but necessary, and that you get what you pay for. One CEO, who had been in consultation with several NOMADs indicated that their quality could be variable:

"Our discussions with asset management companies have led to some very strong AIM NOMADs coming forward. However, we have come across others who were more like 'city jockeys' with no great sector experience or interest and this wouldn't work for us. We are prepared to pay highly [up to £300,000 per annum] for the best service we can get."

In conclusion, the majority of these businesses are unlikely to choose an IPO option instead of a trade sale in the current economic climate because they do not believe that they will raise sufficient funds to justify the amount of work required for an IPO and there is a risk that their current private investors share value may decline during the lock-in period after initial flotation. However, several respondents indicated that if the economy improved over the next year or two, they would seriously reconsider this option. None of the respondents indicated that they were currently being pushed towards an IPO by their existing private equity investors, although several of the longer established businesses mentioned that they would be expected to reach their next stage of financing within a year or two. However, at present, this was more likely to involve a further round of private equity finance, or a trade sale.

4.4 Delisted Businesses

This section examines the reasons and motivations for surveyed businesses that have delisted from UK stock exchanges during the last five years. Finding and interviewing these businesses proved to be a difficult task, since many recent delistings have been enforced by business failures leading to administrations/receiverships and liquidations (such as household name companies like HMV, Rangers Football Club and JJB Sports) rather than as a result of choice on the part of the business. It should also be noted that a number of delistings relate to reverse takeovers (where the business is bought out by a private company which then becomes listed) and admissions to the main LSE. Here we examine contrasting cases where businesses have delisted totally from UK stock exchanges and continued trading as private companies.

In the three cases surveyed the stock markets can be seen as playing a part in each business's choice to delist, but the main reason in all cases has been as a result of the performance of the business itself. In all three cases the respondents had a poor opinion of the respective markets and the way in which they operate.

A large service company delisted from the LSE as a result of a private equity (PE) consortium buyout. The business was purchased because it was achieving growth in a growing UK market and had an exciting strategy for diversification into integrating current services into a new technology driven energy market. This strategy led to a subsequent major acquisition and 50 per cent growth in the business during the past five years. The respondent reported the advantages of delisting as considerable, as it had allowed the business to restructure. It was noted that the private equity buyers took on a large company pension deficit and were initially required to take out a sizeable amount of bank finance, which has subsequently been halved as the business has undergone rapid expansion. The respondent concluded that although the business retains a 'Plc ethos' with full corporate reporting a key difference with being unlisted is that the CFO does not have to spend time dealing with stock exchange intermediaries such as brokers, analysts and financial PR companies and in his view this is the main deterrent to listing.

A travel and events business valued at £60m that recently delisted from the UK AIM market had done so because it was struggling to survive in a very tough sector, where margins were receding and demand falling due to the recession. The business had originally floated in the mid 2000s when the AIM market was buoyant and successfully raised funds for acquisition and operational development. However, it was noted that whilst the management team were very successful at working with stock exchange intermediaries to generate confidence in the business, they did not pay enough attention to managing their own business. The business failed to make any profits during this period and eventually reached the stage where it could not raise sufficient funds to remain in business. At this stage it was agreed to delist and find a private buyer. The travel agency part of the business was sold for £45m, which paid off a substantial part of the business's debts and the remaining events business continued to trade as a separate private limited company. Delisting initially saved both parts of the company, but unfortunately the events company was unable to find a trade buyer and the remaining debts owed to HMRC and their accountants, with regard to exit costs relating to finding PE or trade buyers (circa £300,000)[16], forced the business into liquidation 18 months later.

The CEO of the events business, who had also worked for the original business, took a dim view of the AIM market and the previous management's activities. He noted the poor management of the business and that the original managers had not invested in their own business, but had courted the market for funds. The business had paid a heavy price, perhaps more than £250,000 per annum in total AIM related costs. This had included using top level brokers who would promote the business to major institutional investors and this had been manageable in better times. When the business started to struggle, the cost of AIM market membership became excessive. In order to manage the market, they were required to make four announcements within a few weeks and these cost £25,000 each. This was a large amount of money for a struggling business, and in addition the NOMAD advisors did not help them. Instead, they had kept their distance, as they did not want to find out about problems which they would have to report to the market. These events are recounted below:

"The business had to delist as it was unable to ride out the storm of failure to meet its rising debts. Once the market caught wind that it was in trouble, the business had to make a number of announcements. Each of the four announcements cost £25k, so within a short period of time it had cost £100k plus just to keep the market informed of the company's attempts to keep afloat. Eventually it became too expensive to remain on the AIM exchange and the board and shareholders agreed that the best course of action would be to delist and sell the travel company in order to pay off/transfer debts."

In conclusion the CEO reported three key issues which caused the failing business greatest concern: first, the high cost of reporting to the market, which was required at a time when the business was struggling, but which was an unwanted cost burden; second, the problems of market scrutiny which can lead to a spiral of decline for a small business experiencing problems, particularly as advisors cannot assist struggling businesses without telling the market what the problems are, so there an inherent contradiction in their role; third, as a relatively small business as soon as the market found that they were in trouble it was only a small matter of time before the situation quickly unravelled and they had to leave the exchange. It is a very volatile market when a business is failing.

A third delisting case in this survey involved a large construction company (£94m sales turnover) with an overseas subsidiary that was listed on the New York Stock Exchange

[16] The recent AIM delisting case of Lees Foods demonstrates that this can be an expensive process, circa £1m in this case, requiring blue chip advisors and associated services (Herald Scotland, 30/06/2012).

(NYSE) in the late 2000s. When the company suffered a major setback, with the cancellation of a large overseas construction project, it was decided to delist the subsidiary company and conduct a private trade sale to raise funds to cover the debt from the failed project. In this case the operations of the stock exchange market had nothing to do with the decision to delist, but the FD made it clear that the US stock exchange is highly regulated and the business had found life a lot easier since delisting:

"Listing on NYSE was a very long-winded and tortuous ordeal. Unfortunately the timing was terrible, coinciding with the economic downturn, and the anticipated returns were never realised. It took at least a year to set up the IPO and associated costs were in the region of £1m. It definitely wasn't worth it. The accounting and financial burdens were most awkward, but the degree of corporate reporting was also far beyond what the company was ideally comfortable to undertake and pay for."

In conclusion, it may be stated that the operation of the stock exchange markets were not directly responsible for any of these delistings, which were primarily determined by the performance of each business. However, in all three cases the demands of reporting and dealing with the market created a time and cost burden that would serve as a deterrent to them becoming listed again in the near future.

These delistings related to restructuring requirements following problems with lack of profitability, underlying debt through pensions deficits and a failed project. For these companies, operating privately offered a more stable environment with greater focus on managing the business, rather than managing the markets. The cost of failure in the AIM market can be considerable and once the market loses confidence a spiral of decline can quickly ensue, with costly consequences leading to the likelihood of delisting as the costs of regular emergency reporting to the market are prohibitively expensive for struggling companies. AIM Nominated advisors (NOMADs) are also less likely to be of help to struggling companies, as they have a duty to report to the market and so may keep a distance when there are problems. All of these respondents reported that they preferred managing their business without the distractions of the market and that time spent reporting to and managing the market can be to the detriment of managing the day to day operations of the business.

4.5 Perceptions of Established Unlisted Businesses

This section examines the perceptions about the current UK stock markets of the CEOs and CFOs of those surveyed businesses that have never been listed on these markets. Here the focus is on the group of six surveyed longer established family and individually owned large private and public unlisted companies (excluding the five younger fast growth businesses that are considering an IPO option).

These businesses are characterised by their length of establishment, with a median trading age of 35 years and family or private individual ownership. An exception was one business that had received private equity finance, with the two founders retaining a 38 per cent share in the business. They are all MSBs (with current sales ranging from £25m to £169m) and are in sectors which are broadly representative of larger UK businesses; insurance, manufacturing, energy, business services, retail and construction. All of these businesses have exhibited some overall sales turnover growth during the past five years, although their performance has been patchy, particularly in the construction and energy sectors, where there was a dip in sales around 2009-10.

It is notable that only one of these businesses, a growing business service with extensive R&D activities which has received extensive private equity venture capital finance in recent years, is currently considering an IPO option. Even in this case, unless the UK stock market shows a greater appetite for IPOs and the business has reached the right market cap size for a flotation (sales turnover of at least £50m), it is more likely that a trade sale will be the chosen exit for their current investors. It was mentioned that their investors do not like the idea of an IPO involving liquidating their shareholdings in the current market and that a trade sale would be far easier to organise and offer a more certain outcome. In short, they do not feel that the benefits of an IPO would outweigh the costs.

Most of the respondents were not remotely interested in the idea of raising funds from an IPO on a UK stock exchange. A typical response was "I've not given this much thought. It isn't really a consideration for our business." However, they all expressed their opinions and perceptions about the UK stock exchanges.

Reporting costs and time management issues were the most frequently raised concerns associated with the UK stock exchanges (4 responses each). Several of the respondents mentioned that reporting to the market and maintaining the business status and presence in the market would require a huge amount of work and that this could be costly and detract from the day to day management of the business: "AIM is very expensive to enter, maintain and manage." However, two respondents noted that this was not a problem as they already had extensive reporting requirements (at least monthly); in one case to the venture capitalist investors and in the other case to the parent company.

One CFO of a large manufacturing business, who had previous experience of working in a UK public listed company, was keen to stress the importance of knowing who your shareholders are and the advantages of being a privately owned business:

"At present we are master of our own destiny. We can decide strategy and make decisions on timings of investments, growth, contracting etc., as we see fit. As a listed company you come under a lot of pressure from shareholders who have expectations about constant growth and increasing returns year after year. This is a distraction from managing the business and a significant proportion, perhaps 15%, of my time would be spent either dealing with institutional investors at roadshows, or in extra admin and statutory reporting. This means that the company would lose independence and autonomy in terms of what and how it would like to do things."

There were also perceptions of *"increasing regulatory burden"* (3 responses) and these were also associated with increasing levels and amounts of reporting as well as issues around board structures and quotas determining their make up. A strong theme here is the argument for appointment on merit, rather than by quota. Associated with this were the comments from two respondents who mentioned concerns about the transparency of the markets, for example in respect of directors' reports and salary disclosure, with one stating: *"Some of my directors would be frightened off by the amount of reporting required."*

The short-termism of the market was an issue for three respondents. They indicated the need for an IPO to be appropriately timed, when the business had sufficient capital size (at least £50m) and there is sufficient interest in the market to merit a flotation. There was generally doubt about the liquidity of current small cap markets and also an acknowledgement that the larger the business the more likely it would be to pay for and gain access to the market services necessary to generate market interest and that this might require a capital value of well in excess of £100m: *"At each step up, the market has a better range of support and investors are more likely to take interest."* However, *"for a small cap business the current market can be very volatile and unforgiving."* The overriding view was that the markets are risky and not a cost effective option for these businesses at present.

4.5.1 Primary sources of finance

These businesses were asked what their current primary source of finance is for business development. In most cases the answer was through surplus from retained profits and a general response that the company was seeking organic growth. In the cases where no external funding was likely to be sought, there was an understanding that additional finance could be brought in from the existing directors or in one case a parent company. Half of the businesses mentioned an ability to raise other forms of external finance if required and this included additional private equity from venture capitalists and business angels, bank finance through an existing lending facility of £7.5m and the use of government export credit guarantee finance.

4.5.2 Requirements for change in the markets

Whilst most of these unlisted businesses were unlikely to consider listing on a UK stock exchange in the foreseeable future, the respondents were prepared to make suggestions for improvements which would make this a more appealing option to them. The three main factors mentioned were: first, to reduce the level of regulation and burden on businesses; second, to encourage longer term investment; third, to create a more buoyant economic climate with more volume of activity on the stock exchanges.

There are concerns that even a small cap market like AIM, which is supposed to encourage entry into the UK stock market environment, is becoming too highly regulated and that the burden of reporting is too great for smaller growth businesses. This ties in with concerns about market short-termism, since over-reporting (i.e. too much transparency of detail, too regularly) is seen as fuelling short-term perspectives and particularly dangerous for smaller cap growing businesses, which are more susceptible to market volatility. This statement from the CFO of a manufacturing business summarises these concerns:

"The AIM market is expensive to enter and maintain a presence on, draining on management resources. It does not have the liquidity it is designed to provide, as the companies are simply too small. For most it is a waste of time, unless on a rapid growth path. The costs would typically outweigh the benefits and exposure to the potentially fast, short- term, downside is too great. It only takes one bad event and the market will drop you like a stone and you have to tell all your competitors that you are failing. The market is short-term and unforgiving of failure. There is probably more ability to take risks in the private market, without exposure to market scrutiny and where there is longer to get things right."

4.5.3 Perceptions of corporate governance

There was mixed feedback in terms of the role of corporate governance and the extent to which this would act as a deterrent towards these businesses considering listing on a UK stock exchange in the future. Those businesses already reporting regularly to private equity shareholders, parent companies or in highly regulated industries were not overly concerned by this. However, those that had previous experience of the corporate reporting requirements required by stock exchanges felt that this was a deterrent, due mainly to the time and costs involved in these undertakings. There were also concerns over the degree of transparency of information required which was off-putting to directors, but also potentially a competitive disadvantage (e.g. for technically innovative companies with an R&D focus). One respondent was not happy with the concept of board quotas and there was a general sentiment that board appointments should be on merit. Again the view was expressed that very regular reporting, more than half yearly, was disadvantageous to small cap growth businesses and could create short-term issues for them. It was also suggested that a lighter touch and less costly approach would be more encouraging for market entry.

4.5.4 Views on ‘Plc’ status

A couple of surveyed unlisted businesses currently hold the legal status of Public Limited Companies (Plcs). These respondents were asked why this was the case and what advantages the business gained from this status.

In these cases the Public Limited Company (Plc) status was established many years previously and had nothing to do with a previous UK stock exchange listing. It appears that the main reason for remaining as a Plc is *“market status and kudos”*, and that this is more important within the UK than within overseas markets where the term is not necessarily recognised. It was noted that Plc status provided “gravitas” and was perceived as helping UK market sales, access to financing and industry standing which could help with acquisitions.

There appears to be relatively little difference in terms of the requirements for Plcs, if the business is already sizeable, and particularly if they are operating in a highly regulated industry sector. A manufacturing respondent noted:

“We are sufficiently large that we still have to comply with a lot of large firm requirements and our industry has plenty of corporate regulatory requirements, for example around health and safety, risk and environmental issues. The only key difference is that we cannot claim exemption from auditing, but this is not a serious issue.”

5. Corporate Governance

Corporate Governance Key Findings

- Listed companies were more likely to mention collective board responsibility for corporate governance and to have separate oversight boards. Unlisted companies were more likely to mention a single person being responsible, such as the Chairman or Company Secretary.

- Listing has led to increased corporate governance activities through oversight boards (e.g. audit, remuneration, nomination) and reporting requirements, which are largely seen as necessary forms of accountability to instil shareholder confidence.

- Most previously PE backed companies did not think that AIM's twice yearly reporting requirements were too onerous, although several found it time consuming (notably financial reporting) and potentially counter productive (fuelling short-termism).

- Unlisted Plcs, PE backed companies and MSBs also undertake corporate governance activities to inform shareholders, assist international trade and work with government agencies, and to address workforce and environmental compliance.

- Most businesses have monthly board meetings, with little difference between listed and PE companies. Family businesses where the owners have day to day contact with the business have a lot less board meetings.

Shareholder engagement varies considerably according to the listing status of the business:

- LSE and AIM listed companies will meet with key institutional shareholders at least twice yearly in roadshows, whilst the ISDX companies were less active, with more emphasis on annual shareholder meetings.

- In a small minority of listed cases the key institutional shareholder may have NED status, similar to the more direct relationship in PE backed companies.

- The vast majority of listed companies take care to keep key large institutional shareholders informed and to 'clearly articulate policy' to them, but these shareholders rarely impact on activity or policy.

- Both listed and PE backed companies can face short term pressures from shareholders during difficult times (e.g. restructuring and R&D phases) and there is a crucial balance in listed companies between reinvestment and dividend payments.

- One PE backed company had suffered from shareholder pressures for a premature

IPO which had not raised as much funding as had been ideally required.

Most listed businesses experienced no recent changes in their relationship with their UK stock market and associated intermediaries:

- ISDX companies noted that ICAP has recently acquired this market and is seeking to bring it more closely into alignment with AIM (e.g. requiring advisors).
- Advisors and brokers are expensive and variable in quality - 'you get what you pay for and at the top end they are very good'. Finding good advisors and brokers who understand and effectively promote the business is critical to market success.
- The numbers of advisor/broker agencies are declining in the market, reducing competition and choice for listed companies.
- Premium listed LSE businesses were spending between £250,000 and £500,000 per year on advisors, brokers, financial PR, accountants, auditors etc., whilst for AIM this was £150,000 or more.
- There were concerns about the short-term views of market brokers, analysts and asset managers. Few stay in post long and they are driven by annual performance rather than longer term perspectives.

Most of the surveyed listed businesses have done so in order to raise funds for investment, either at IPO, or subsequently when requiring substantial funds for business development, such as for strategic acquisition.

- Listed businesses were mostly satisfied that the stock markets have been highly advantageous, with their benefits outweighing their costs.
- A couple of listed businesses had recently failed to raise the level of funding that they had required, but also mentioned that the public market was their only likely funding source and that the market valuations were a fair reflection of the business.
- Listing status and market capitalisation had enabled a couple of businesses to obtain alternative debt finance, deemed less expensive than raising funds on the stock exchange.

For the vast majority of surveyed businesses the level of corporate governance is not an overriding factor in their decision to list or delist:

- Listed companies are generally accepting of the current level of corporate governance and reporting, recognising that some further market standardisation may take place (e.g. ISDX may become more like AIM), but preferring the status quo.
- Seven listed companies suggested changes which mainly involved simplification

and reduction of reporting, particularly for small caps on AIM, to allow for the 'light touch' approach that encourages businesses to list in the first place.

- The markets are offering different services to different types of businesses. Some on ISDX are only looking for minimal market presence to facilitate share trading.
- A couple of sizeable listed MSBs mentioned that current financial reporting requirements are too onerous.
- One listed company acting as an advisor to potential IPOs suggested that the time and costs associated with increasing levels of corporate governance requirements are a potential deterrent to new listings.
- Two potential IPOs perceived that the management time involved in reporting is a deterrent, but the bottom line is that they do not believe the public market can deliver sufficient returns to justify an IPO currently.
- Two large long established privately owned unlisted businesses perceived the degree of reporting and disclosure for listing as unacceptable.
- No surveyed listed businesses had been affected by repercussions of the 'Shareholder Spring', but there were some concerns about applying salary caps to LSE companies looking to recruit top level management staff.

This chapter focuses on corporate governance in the 31 surveyed businesses, specifically examining the extent to which UK stock exchange listing status has impacted on the corporate governance activities of the surveyed businesses, with comparisons being drawn between different types of listed and unlisted businesses. Corporate governance is concerned with how businesses interact with their stakeholders, customers, suppliers and the wider community. Here we are particularly concerned with the regulatory environment and how businesses work with their investors and various related players in the UK stock market and the extent to which this impacts on business strategy and development.

5.1 Responsibility for Corporate Governance

All of the responding senior executives acknowledged that the responsibility for their company's corporate governance activities took place at the senior executive board level.

Listed businesses were far more likely to mention that corporate governance was the collective responsibility of the board (8 out of 17 cases). Two respondents specifically mentioned setting up a separate governance board and several others mentioned that they had separate boards or committees for issues such as nominations, remuneration and audit/finance.

Company Secretaries have an important role in dealing with corporate governance compliance issues in listed businesses. One company secretary of a large business service stated that *“I wouldn’t have a job if it weren’t for corporate governance compliance - it is a very big role.”* Several respondents mentioned the new UK Corporate Governance Code (formerly the Combined Code, until October 2012), which is a requirement of all premium listed LSE businesses.

Unlisted businesses were far more likely to mention having a single person being responsible (6 of 14 cases), such as the Chairman or Company Secretary, although some of the larger unlisted businesses mentioned that it was a joint board responsibility. Two private equity backed unlisted businesses mentioned that their investors, who held NED roles on the board, also had an important role.

5.2 Listing and Corporate Governance Activities

For LSE and AIM listed businesses, listing can have a considerable impact on increasing their corporate governance activities. As one AIM listed life science business CEO mentioned:

“Listing has had a massive impact. We have various boards and committees tackling a whole range of activities: risk management, audit, remuneration, nomination etc. None of this would be required if we were a private company. However, we accept that this has a role to play and prefer to be accountable to public shareholders than private equity owners.”

However, for the ISDX listed companies there is a much less onerous regime and apart from the twice yearly reporting requirement, this was considered relatively “light touch.” More generally, several respondents mentioned that they were glad that they did not face the degree of regulatory requirements that they had previously experienced in the US, whilst for unlisted private equity backed businesses there was a sentiment that they were already required to provide very regular and detailed reporting (notably financial reporting) to their investors and that listing would make little difference in this respect.

“We are private equity backed and have strict corporate governance in place. Our VCs impose certain management requirements and I produce a board update pack every month.” CEO of a high growth clean energy business.

Larger unlisted companies which have retained a ‘Plc’ ethos are also undertaking a great deal of corporate governance activities. In these cases they see this as important, particularly if they are in high risk sectors, are developing overseas trade, or want to raise their profile within communities.

“Delisting has made little difference as the company has extensive corporate governance requirements, maintaining a large ‘Plc’ ethos, particularly with regard to health and safety, welfare, environment, biodiversity, social responsibility, carbon management, the Walker guidelines on accounts and audit etc.” CFO of a large service company which delisted within the last five years.

“Perhaps as a result of previous Plc status the company has a lot of corporate governance activity. It is also relevant to our overseas work. We outline our approaches to: workplace

equality, health and safety, education and training; environmental requirements relating to minimising threats and maximising sustainability, conservation and recycling; customer service, including no bribery; and communities, interacting with locals, sponsorships/charitable works and social/sports events." FD of a large unlisted construction company undertaking a considerable amount of overseas trade in Africa and Latin America.

The one fundamental difference raised between public listed and unlisted businesses is the extent of reporting into the public domain. Several respondents mentioned concerns about having to take care over what can and cannot be disclosed in the public domain[17] and that this can be onerous, stressful and problematic:

"The main issue is the degree of additional reporting in the public domain, which is time consuming, potentially counter productive for the company, stressful and uncomfortable for directors." CEO of a recently AIM listed business that had not gone through the typical venture capital investment route to an IPO and therefore might not have had the level of corporate governance already in place that many new AIM listings have.

5.2.1 Board Meetings

The vast majority of surveyed businesses hold board meetings on a monthly basis, with three quarters of respondents holding board meetings at least nine times a year. Board meetings are typically half a day in length, although in some cases they extend to a full day or can even become an event with evening meals included. In this respect there is little difference between listed businesses and unlisted Plcs or private equity backed businesses. The major difference is where unlisted private companies are in family or major individual shareholdings and the owners have a close working relationship with the business. In these cases there is little need for regular board meetings and they may only occur two or three times a year.

5.2.2 Extent of shareholder engagement

There is a clear differentiation between the surveyed listed and unlisted businesses in the ways in which they engage with their shareholders. At the most straight forward level, there are unlisted family and large individual shareholder businesses where all of the shareholders are actively involved in the management of the business, or attend all board meetings. For unlisted businesses with private equity investors it is common for these investors to have Non Executive Director (NED) status or an invitation to attend the board (observer status) and management regularly update their investors on progress, sometimes on a weekly basis.

The surveyed listed businesses exhibit a much wider range of shareholder engagement which is reflective of their wider public and institutional shareholder base. The ISDX listed businesses which are reporting twice yearly and in some cases have bought back shares and have private shareholdings are least active in engaging with their shareholders, typically limiting this to annual shareholder meetings and 'road show' investor meetings with larger institutional shareholders once or twice a year.

---

[17] Listed company respondents were guarded in what they reported to the research team in relation to the future plans and performance of their business, mentioning avoiding giving insider information.

AIM and LSE listed businesses are active in engaging with their shareholders, particularly in respect of ensuring that their larger institutional shareholders are kept fully informed of quarterly and half yearly reports and will meet them at least half yearly with ‘road shows’ where they explain company results and discuss the strategy for taking the business forward. The CEO of an AIM listed energy business stressed the importance of this:

“Communication with shareholders is given high priority and the company therefore communicates regularly with them, including the release of announcements for the interim and annual results and after significant developments.”

In a small minority of cases the major institutional shareholders have a role on the board:

“Our largest shareholder is on the board as a non executive director. The other major institutional shareholders receive half yearly road shows.” FD of an LSE listed infocomms business.

In the vast majority of surveyed listed companies a great deal of care is taken to keep key large institutional shareholders informed about the businesses, but these shareholders do not hold any particular sway over company activity or policy.

5.2.3 Company Strategy

Almost all listed business respondents stated that their company strategy was not influenced by shareholders. The general consensus was that shareholders should be consulted and informed and that it was important for them to understand and buy into the company strategy. In most cases this strategy involved mid to long term plans of between 3-7 years duration. For example, younger AIM businesses and those undergoing R&D and new product and service cycles required time for these to develop, whilst some very large and long time LSE listed businesses were undertaking restructuring and growth acquisition programmes that could take five years to complete. The Company Secretary of a premium LSE listed business service company clearly presented this point:

“It is important that the company strategy is clearly articulated to shareholders. There is no short term pressure from the major longer term institutional shareholders who have stuck with us and understand our five year restructuring strategy, however the shareholder base can change over time and it is important to keep them regularly informed.”

This is not to say that there are not short-term pressures exerted by shareholders, but in the vast majority of cases these have not held sway. For example, the Financial Director of an LSE listed infocomms business that has recently gone through a new product development cycle noted:

“The shareholders are generally in favour of the company’s longer term strategic growth plans. However, there is always a fine line to tread with regard to paying dividends and re-investing in the company. Shareholders can be quite vocal during bad times when they are not seeing the results that they want.”

It was also recognised that even larger listed businesses with longer term strategies need to be agile and flexible enough to take advantage of short term opportunities, such as in new markets and for strategic acquisitions.

For the unlisted private equity and privately owned businesses surveyed there is a different and more direct relationship between the shareholder base and the management of the business, which in many cases are the same entity. It is worth noting that private equity backed businesses can experience short-term pressures from their investors, particularly when R&D processes and technical and regulatory barriers to the market slow down business development. In the case of one AIM listed business, pressures from investors had led to an Initial Public Offering (IPO) and buyout of an original institutional investor, the timing of which proved unsuitable to both parties.

Several respondents also warned of the dangers of becoming too focused on the stock exchange and influence of advisors, which can be short-term and impose unsuitable non executive management and unrealistic expectations on the business:

"It is important that investors have a longer term focus. Unfortunately the brokers/advisors and fund managers have a short term philosophy and few stay in post for more than a couple of years. The 'city' view does impose on board structure and inevitably board thinking. There is a danger that the directors take their eye off managing the business and the non executives recruited from larger businesses come in and do not understand about growing a smaller business." CEO of an AIM listed life science business.

5.2.4 Metrics

The evidence from this survey suggests a clear difference between listed and private equity businesses on the one hand and unlisted family and large private shareholder businesses on the other.

Listed businesses have to provide at least half yearly reporting and in the case of the LSE quarterly reporting. Whilst a great deal of the regular reporting is of a financial nature, listed businesses also have to provide a considerable amount of other disclosure, including directors' reports and remuneration, and will soon be required to report on their carbon footprint. Whilst most private equity backed business respondents mentioned that they also have to provide regular financial details to their investors, often monthly, they acknowledge that their reporting is in-house and rarely involves the range of metrics required of listed companies.

The general consensus amongst the surveyed listed businesses is that the current level of reporting is far more than private unlisted business have to undertake, but is acceptable.

"There is a lot more reporting required as a listed company and this is accepted as necessary for shareholder confidence and transparency." Company Secretary of a large LSE listed business service company.

There is an acknowledgement that there is likely to be more reporting required in the future, particularly for the ISDX which may come more into alignment with AIM, with the use of International Financial Reporting Standards (IFRS). However, there is also a strong suggestion that reduction and simplification of reporting would be required and that some forms of financial reporting in particular go far beyond what is really necessary:

"As a listed company we have to provide a raft of metrics, but this is largely acceptable on the corporate governance side. However, the increasing level of financial reporting in recent years is totally unnecessary and has led to a considerable amount of wasted time generating data which is of no use or value. A couple of years ago financial reporting was at a suitable level, but in recent years a lot of extra data is required e.g. exchange rate data." CFO of an AIM listed life sciences business.

It should also be noted that a number of larger unlisted Plcs, manufacturing and construction companies also undertake a great deal of additional metrics, particularly in relation to health and safety and workforce welfare and environmental impacts. A great deal of this is selectively put into the public domain, particularly for example where it might assist with validations enabling undertaking work for UK and overseas governments.

5.3 Cost and Relationship with UK Stock Exchange Intermediaries

Businesses that are currently listed, or have recently delisted, provided responses relating to their relationship with UK stock exchange intermediaries such as advisors, brokers, asset managers, financial PR companies, accountants, lawyers and the regulatory authorities. They were asked whether these relationships had changed, the various merits of these intermediaries and the costs of their services.

The vast majority of respondents felt that there had been little or no change in their relationship with stock exchange intermediaries in recent years. The only changes that were noted were those that had been imposed by the ISDX market, which has recently been bought by ICAP in 2012 and appears to be trying to develop along the lines of AIM by requiring mandatory advisors and providing premium services such as 'Crest' which aim to increase trading volume. These changes met with mixed reviews, with longer established ISDX businesses claiming exemptions from the cost of advisors since they are not looking for change or increased trading volume, but newer members suggesting that the £10,000 to £25,000 cost of an ISDX advisor was acceptable, as they "manage activity on the market and flag up legal requirements", and that they would be interested in generating more trading volume into what has been a very sterile market.

There was a general consensus amongst the surveyed AIM and LSE businesses that intermediary services are expensive, but necessary in order to get the most value out of the stock exchange market. Some stated that "you get what you pay for" and that "the top end advisors and brokers are very good at their jobs."

The largest premium listed LSE businesses surveyed were spending between £250,000 and £500,000 per year on advisors, brokers, financial PR, accountants, auditors etc. and perhaps as much again in internal management resources to maintain their listing status. For the smaller AIM listed companies the cost of maintaining a market presence could be £150,000 per annum or considerably more depending on factors such as the cost of the NOMAD (£25,000 upwards), the costs of various associated intermediaries and the salaries of required NEDs. Again, when the internal costs of meeting the requirements of market membership are taken into account, this can easily be as much as that paid to the external intermediaries.

"AIM is an extremely professional investing community and we were able to find NOMADs who understood our product and why people pay us millions of dollars for what the company does. We are happy with the roles of the various players, including paying analysts to write reports on the company in order to generate interest and trade in our shares." CFO of a recently AIM listed infocomms business.

There were some complaints about the short term thinking of brokers and advisors and these particularly related to AIM listed companies and a recently delisted company which had experienced the negative impacts of trying to manage a situation where there had been a sharp short-term downturn in market sentiment.

"Brokers, advisors and fund managers have a short term philosophy and few stay in post for more than a couple of years." CEO of a life science business.

"Analysts appear keen to go with fast growers and ignore the value of steady growers who may actually be good performers in poor market conditions." CEO of a manufacturing business.

"The quality of advisors and the role they play in assisting companies is critical. Rather than focusing on regulation as a means of driving up the quality of companies on the UK exchanges, the exchanges need to focus on what companies they wish to admit and then to ensure that good quality advisors are available at a reasonable cost. It is very difficult to raise money from road shows in the current climate and the costs of entering and maintaining a presence on AIM are considerable." CEO of a recently delisted travel business.

It was also noted that there has been some recent consolidation of brokers in the market (e.g. Cannock, Panmure, Seymore Penrose have all contracted) and that their role is vital, so a reduction in the number of brokers in the market may not be helpful:

"Brokers are important and some do not have the right coverage to get out to the markets required. It is vitally important to get the business message out to the market. However, the pool of brokers is consolidating, so there are less analysts and this cannot be healthy." CFO of a premium LSE listed manufacturing and retail business.

5.4 Impacts of Listing on Business Investment

Most of the UK stock exchange listed businesses surveyed have done so in order to raise funds for investment, either at the time of the initial flotation, or subsequently when they have required substantial funds for business development, such as for strategic acquisition. There is general satisfaction from these businesses that the stock markets have been highly advantageous, with their benefits outweighing their costs.

"The company has raised considerable sums from being premium listed on the London Stock Exchange - £70m net in 2007 and a further £27.7m in 2009 and would seek to do so again in the near future, if required." CFO of a manufacturing business.

However, for a minority of the listed companies, particularly those on ISDX, their listing has been to facilitate share trading and to provide status and kudos in the market and has had nothing to do with raising funds for investment. It was also noted by a couple of respondents that their listing status and market capitalisation had enabled them to obtain alternative debt finance which they assessed to be currently less expensive than raising funds on the stock exchange.

Only in a couple of cases did respondents indicate that they did not raise as much funding from the stock exchange as had been expected. Both referred to the markets being the only likely source of funding for their businesses and that the share issues had taken place in the post 2008 period when the market had been depressed. In both examples, the respondents indicated that the timing of their share issues had not been ideal and that the level of funding raised was probably a fair reflection of the status of the business. One of these businesses subsequently delisted because it had failed to be profitable for several years and required a trade sale in order to survive. The other R&D related business has proceeded to develop and grow, but at a slower rate than desired.

5.5 Suggestions for Corporate Governance Change

Less than half (7 out of 17 cases) of the surveyed listed businesses made suggestions for changing the current corporate governance regime for their respective UK stock exchanges. Overall there is an expectation on the part of these businesses that the amount of reporting will keep increasing, such as with the introduction of carbon emissions reporting, and that the markets will inexorably move towards a homogenous standardisation. Whilst there is widespread acceptance of this process and an understanding that regulation and reporting is necessary and desirable for maintaining market standards and providing investors with the required levels of transparency to generate confidence in the operation of the market, there is also a general desire to maintain the status quo, rather than keep piling up regulations.

The main suggestions for change involve simplification and reduction of reporting, particularly for small caps on AIM. One ISDX listed business Financial Director also argued that the UK stock exchange markets should not become too homogenised as this would not allow for the light touch approach that encouraged their business to list in the first place. There needs to be an understanding that the markets are offering different services to different types of businesses and some are only looking for minimal market presence to facilitate share trading, but not to raise funds.

Another respondent from a large LSE listed insurance business which has also offered advice to companies considering listing also indicated that the costs and burdens of listing are currently off-putting to potential IPOs:

“The costs associated with reporting requirements and governance, and the costs of being a listed company are quite significant. Whilst not prohibitive to our own company, we feel that these are one of the reasons why other companies do not seek stock exchange listing. The process is much more complex than it used to be. Quarterly reporting is also onerous and a lot of effort goes into producing interim management statements when we already report half-yearly. This is quite a burden and cost, as well as potentially leading to short-termism on the part of some shareholders.”

This final issue, presented above, in relation to over reporting fuelling short-termism in the market has already been mentioned as a concern by several small cap respondents.

Another area of concern is with the amount of financial reporting which some sizeable MSB respondents have mentioned is overly elaborate, particularly for example in respect of exchange rate reporting.

"Reduce the amount of financial and corporate reporting for businesses of our size. Half yearly is sufficient and there is no need for the amount of financial measurements and additional Directors' reports etc. The forthcoming requirements for Carbon Emissions reporting are also unnecessary." Financial Director of a mid cap LSE listed infocomms business.

5.6 Are Corporate Governance Requirements a Deterrent to Listing?

For the vast majority of surveyed businesses the level of corporate governance is not an overriding factor in their decision to list or delist. Only five respondents mentioned that the current perceived level of corporate governance would act as a deterrent to listing. These include one company which delisted because it could no longer afford to be listed, two high growth companies that might seek an Initial Public Offering (IPO) in the near future and two large established privately owned unlisted businesses for whom the degree of reporting and disclosure would be unacceptable. It is notable that for the two potential IPOs corporate governance is a perceived deterrent, but not the main reason for rejecting the stock exchange option, which is that the market is not currently a viable source for fund raising.

"They are a deterrent, not so much in terms of cost, but in terms of the disciplines it demands upon the management team in managing the process and ensuring they do not put a foot out of place." CEO of a high growth digital technology business considering an IPO.

"They are a deterrent, but the main factor is lack of belief that the market can deliver the funds required to make the ordeal of listing worthwhile." CEO of a high growth life science business considering an IPO.

5.7 Views on the Shareholder Spring

Few respondents had strong views about the 'Shareholder Spring'. Most suggested that it had made no difference to them, indicating that their businesses were too small, or that they have independent remuneration committees and total transparency with their shareholders and that ultimately they seek shareholder approval. They mentioned that in almost all cases shareholders had unanimously voted acceptance of their remuneration packages. There were a couple of comments from smaller listed Mid-sized businesses (MSBs) to the effect that:

"Unless a shareholder has a significant holding in a large high profile business they are unlikely to have any sway in matters." CEO of an AIM listed life science business.

Others were quick to point out that they benchmark their executives' earnings with other businesses in their sector. These included a Premium listed LSE business, a large recently delisted LSE business and a rapid growth high technology potential IPO.

There were some concerns over the perception that the UK government may introduce a one size fits all solution which would not be suitable for many listed businesses. This included a premium LSE company that would come under new restrictions and also a large high growth AIM business which would not initially be affected, but perceived that this would cause problems for them if it applied to AIM businesses, or they reached the stage of achieving a full LSE listing.

"An important factor here is that companies need to be able to recruit on merit and attract the right skills. The kind of restrictions on executive pay suggested by new government regulations are a one size fits all solution which is not suitable for high growth international specialist life science companies like ours." A large AIM listed life science business.

6. Board Composition, Executive Pay and Reporting

Board Composition, Executive Pay and Reporting Key Findings

There was considerable variation in the size and composition of the executive board of the 27 surveyed businesses reporting on these matters:

- The median size of the board was six directors, ranging from three directors in a long established unlisted business up to 12 directors in a premium LSE and a rapid growth PE backed business.
- Almost half of the boards were made up of Non Executive Directors; listed, Plc and private equity (PE) backed companies have far higher NED proportions than their private unlisted counterparts.
- One in ten board directors were women; listed, Plc and PE backed companies have almost twice the proportions of women than their private unlisted counterparts.

Women directors perform a variety of board roles, most frequently undertaking Non Executive Directors roles:

- Women were undertaking Chairman, Chief Executive Officer (CEO), Financial Director, Company Secretary and Non Executive Director (NED) roles.
- There was widespread support for diversity of all types (e.g. gender, ethnicity, age) both within the board room and company as a whole.

Few respondents, apart from the LSE listed companies this might affect, had heard of the Davies Review, and there were mixed responses to the concept of board room quotas for women directors:

- Some larger LSE companies are in favour of increasing the presence of women on their boards.
- The majority of respondents favour the existing appointment on merit approach, with listed companies mentioning the role of nominations boards.
- It was recognised that Davies is widening the search pool, which is a positive trend.
- High technology, rapid growth companies mentioned the need to recruit the best managers on merit, bringing in overseas talent where necessary.

Few of the surveyed listed companies mentioned being affected by recent reforms and shareholder concerns over executive pay:

- LSE companies mentioned having remunerations committees, salary benchmarking and shareholder approval, whilst smaller companies were unlikely to be high payers.

- There were some concerns about applying salary caps to LSE companies looking to recruit top level management staff and against a ‘one size fits all’ approach across industries, given that manufacturing performance is different from financial services.

Listed companies are generally not concerned with the current level of reporting required, whereas, unlisted companies do see this as a potential deterrent to listing:

- No listed companies indicated that the current level of reporting would lead them to delist, although a few complained about the ‘excessive level of financial reporting’.

- LSE listed companies can pay £500,000 per annum in reporting costs with AIM businesses upwards of £100,000 pa, with these figures doubling when internal management time is taken into account. Although expensive, it is considered worthwhile. Some smaller AIM and ISDX companies indicated that reporting costs are not that much more than if they were unlisted.

- Unlisted companies, including Plcs are paying considerably less on reporting, with one large delisted company indicating a saving of at least £100,000 pa. and small unlisted companies indicating annual costs of £10,000 to £20,000.

- Around half of unlisted companies raised concerns about reporting, notably relating to directors’ remuneration and business plans, which could assist competitors. These perceptions of reporting were viewed as a disincentive to listing.

- For unlisted businesses, perceptions of the cost and time taken to undertake reporting are potentially a deterrent to listing and would be carefully balanced against the state of the market and perceived ability to raise funds through listing.

- Whilst there was little appetite for additional reporting, the value of a reporting ethos was particularly evident amongst the majority of listed companies and also unlisted Plcs and businesses in high risk sectors such as manufacturing and construction.

- Four fifths of respondents indicated that an independent audit adds value to the business, helping with market credibility (e.g. international and government work) and investor confidence.

This chapter examines the executive board composition of the surveyed businesses (n=27), considering the impact of listing on board composition and diversity issues, in the wake of the Davies Review (2011) recommendations for FTSE 350 companies to aim for women to represent at least one quarter of their executive boards. This chapter also includes sections on executive pay and reporting.

6.1 Board composition

able 6.1: Distribution of Directors, Non Executive Directors and Women Directors

Category	Directors	NEDs (%)	Women (%)
Listed Businesses (n=16)	96	51 (53%)	11 (11.5%)
Unlisted Plc and Private Equity (n=8)	63	28 (44%)	6 (10%)
Other Unlisted Private (n=3)	17	3 (17.5%)	1 (6%)
Total (n=27)	176	82 (46.5%)	18 (10.2%)

Note: 4 cases did not provide sufficient data

From the small survey sample of 27 completed cases there was considerable variation in the size and composition of the executive board of these businesses. The median size of the board was six directors, but ranged from just three directors in a long established unlisted manufacturing business up to 12 directors on the board of a large premium listed insurance business and a similar number on the board of a rapidly growing private equity backed life science business. Almost half of the surveyed businesses' executive boards are made up of Non Executive Directors (NEDs) and only one in ten directors are women. Closer examination, taking into account UK stock exchange listing status, private equity investment and unlisted Public Limited Companies (Plcs), reveals that listed businesses have the highest proportion of NEDs, closely followed by private equity and unlisted Plcs, whilst other private unlisted businesses, consisting of family and large private shareholder owned companies, have comparatively far fewer NEDs. Although there are only three valid cases, it is also notable that the other unlisted private businesses only have half the proportion of women directors as their listed and private equity/Plc counterparts in the survey.

6.1.1 The Roles of Women Directors

The survey revealed that women directors undertake a wide range of roles including Chairman, Chief Executive Officer (CEO), Financial Director and Company Secretary. In one case, half of the board of a listed manufacturing business were women, including the Chairman, Company Secretary and a Non Executive Director.

The most frequently mentioned roles of women on the boards of the surveyed businesses are in Non Executive Director capacities (10 NEDs), most often brought in to provide sectoral guidance. There were several businesses in sectors such as personal services and life sciences where the presence of women directors was considered necessary in order to gain an appropriate female perspective on the market.

6.1.2 Views on Boardroom and Company Diversity

Not all of the surveyed respondents were comfortable in answering questions on boardroom diversity, although they were much more willing to mention overall company policy on diversity (22 indicated that their business definitely had an equality and diversity policy). The typical answer was that diversity of all types, including gender, ethnicity and age, are encouraged in the workplace and that this is good for the development of the firm. However, there was also a very strong view that recruitment and particularly boardroom appointments should be on merit. The survey only included two women respondents who were both supportive of the principle of greater women's presence on boards, but also keen to point out that they and the other women on their boards held their posts on merit because of their experience and relevant qualifications.

Most respondents had not heard of the Davies Review of Women on Boards, but whilst this was not an issue of any concern to the private unlisted businesses, there was certainly awareness amongst the larger LSE listed businesses. Amongst these businesses there were mixed responses, ranging from full support and willingness to comply in three cases to inertia in a couple of cases and one refusal. Some listed companies indicated that their nominations boards/committees ensured that board appointments were transparent and on merit. Amongst the wider survey group, although responses were patchy, there was generally a dislike of quota targets and emphasis *on "recruiting on merit by finding the right person for the job, irrespective of who they are."* This argument was taken a step further by some respondents in high growth new technology businesses who mentioned that it is very difficult to find appropriate high calibre people and *"there is sometimes a need to cast the net globally to attract the right people."*

The response below from the Company Secretary of a large premium LSE listed business presents a balanced and thoughtful approach which is typified by the more supportive businesses to the Davies Review:

"We are fully supportive of diversity, although the Davies review is not really practical, as to reach the quotas required in the next 3 years would mean that there would need to be extreme discrimination against male applicants! However, Davies is widening the search pool and this can only be a good thing in terms of bringing in new talent."

6.2 Executive Pay

Listed businesses were asked if UK government reforms to executive pay, shareholder pressures and public interest issues would affect their remuneration practices. In the vast majority of cases the answer was that it would make little difference. In the case of the smaller AIM and ISDX businesses salaries were not likely to be higher than industry averages and only in one case was there specific mention of a bonus scheme being cut back because it was considered overly generous. Several respondents mentioned that their executive pay is benchmarked to industry sector standards (e.g. New Bridge Street listed company data). Larger LSE listed businesses mentioned that they comply with regulations on pay by having separate remuneration boards and committees and that all executive pay is presented in the public domain and that the shareholders have the right to contest these salaries. As one FD of an LSE listed infocomms business suggested:

"There is full disclosure, a remuneration committee, shareholder voting etc., and this is how it should be."

A couple of listed business respondents specifically mentioned that they are opposed to caps on executive pay. They argue that a one size fits all proportionality solution is not suitable to apply across all businesses. For example, applying bonus restrictions to manufacturing output activities is different from financial services where outcomes can change dramatically from day to day. It would also be a problem for high growth AIM listed companies, if it were applied to them. They suggest that *"there is a need to attract the best people"* and that *"there needs to be flexibility in pay, with the shareholders having the final say."*

Unlisted businesses were asked how becoming listed might change their executive pay practices. In the majority of cases this was not considered to be a problem because they do not have particularly high pay within their sector. This was particularly the case for the young high growth businesses. A couple of private equity backed business respondents also mentioned that they benchmark their salaries. The main concern, raised by five respondents, centred on the increased level of scrutiny and public disclosure of executive salaries required for listed businesses. For some of these respondents this was simply unacceptable.

6.3 Narrative and Financial Reporting

This section summarises the views of the surveyed listed and unlisted businesses with regard to whether the business narrative and financial reporting requirements of UK stock exchange listing[18] are a disincentive to listing.

Less than a quarter of the listed businesses (4 cases) suggested that there are reporting issues which they consider to be a disincentive to listing. These mainly relate to excessive financial reporting requirements in a couple of cases and concerns that quarterly reporting is excessive, also in a couple of cases. None of these businesses suggested that this would actually cause them to delist.

There was considerably more concern about the level and nature of reporting required by UK listed companies expressed by the surveyed unlisted businesses, with around half (6 cases) suggesting that this would be a disincentive. In these cases the main concerns were the level of reporting (4 cases) and degree of public scrutiny (3 cases). It is notable that for the private equity backed businesses, the level of financial reporting was not a problem, but several respondents indicated that they had a perception that they would have to make public the personal details of directors (e.g. remuneration) and the company's business plan, and that they were uncomfortable with this.

Whilst it is not an intended requirement by law to publish business plan details that would compromise a company's competitiveness, it was suggested that in order for listed companies to present a compelling case to investors they are encouraged by brokers and PR companies to present details which might compromise their competitiveness, since these materials can be widely publicised[19] . The same could of course be said for private

[18] Under the Companies Act 2006, listed companies have obligations to provide directors' reports, business reviews, details on directors' remuneration and full financial disclosure statements (CA 2006, Ch46).
[19] An AIM admission document will typically require technical, strategy, market strengths and event timetabling information.

company prospectuses that are supplied to private investors. A key here is whether sufficient funds are raised in order to proceed quickly to market the product/service and in the current economic climate an AIM listing represents a high risk to these potential IPOs. Furthermore, there was a general perception from these respondents that the level of reporting would require more management time and input costs than they would find acceptable.

6.3.1 Costs of Reporting

It proved difficult to get a clear picture of the exact costs of reporting, since most respondents found it difficult to disaggregate between various elements of the process of reporting, such as UK stock exchange membership costs, as well as calculating their internal management costs for reporting. The figures presented are, therefore approximations of annual costs, which at least give an impression of the difference between premium LSE listing reporting on a quarterly basis, AIM and ISDX reporting on a half yearly basis and the associated add on reporting costs which may vary in relation to other factors, such as analysts reports or one off emergency reporting to the market.

What is clear is that the premium LSE listed businesses are typically paying in the region of £500,000 per annum for their reporting and this does not necessarily include the internal management and auditing costs which can potentially double this figure. To contextualise this expenditure, it should be noted that these were the largest listed businesses surveyed, with a median annual sales turnover of £215m.

The AIM listed businesses exhibit a considerable range of costs rising from around £100,000 up to £350,000 per year, depending on the extent of external services input, such as NOMAD advice and analyst reports, as well the internal management costs which can include NEDs' salaries. It was mentioned that there are also the costs for twice yearly investor road show reporting sessions. Again, to contextualise this expenditure, it should be noted that the surveyed AIM businesses were considerably smaller than the premium LSE businesses surveyed, with a median annual sales turnover of £25m. Their sales turnover size range was considerable, extending from under £10m up to £140m, with the amount spent on reporting activities being related to their size and ability to pay for more expensive intermediary support services.

Whilst one or two respondents were taken aback when they started to give these costs greater consideration, the vast majority accepted that this was a price worth paying. In some ISDX and smaller AIM cases the respondents indicated that apart from exchange membership fees and the cost of an advisor, their reporting costs were not that much different to what they would pay if they were unlisted.

Unlisted businesses pay considerably less on reporting than their listed counterparts. When the size of the business is taken into account the differences are considerable. Whilst some of the smaller private equity backed businesses were undertaking a good deal of regular financial reporting, they estimated annual costs of between £10,000 to £20,000, whilst the larger unlisted businesses, including Plcs, were typically spending between £100,000 and £200,000 per annum. The CEO of a large service business indicated that they were saving at least £100,000 on internal auditing costs since delisting, whilst the CEO of a private equity backed rapid growth energy business suggested that *"we are paying nothing like the £200,000 per annum that an AIM listed company of our size would pay."*

For unlisted businesses, perceptions of the cost and time taken to undertake reporting are potentially a deterrent to listing and would be carefully balanced against the state of the market and perceived ability to raise funds through listing. Currently the UK stock exchange market, particularly AIM is perceived as low in trading volume, with lack of appetite for new investment. However, if the market were to become more buoyant it would become a more attractive option to the potential Initial Public Offerings surveyed.

6.3.2 Reporting and Company Approach

The surveyed businesses were asked whether reporting on various requirements changes the way in which the company approaches these issues. Responses were varied and there was a sense of wariness as to *"whether there is a need to report on yet more issues."* Around one third of respondents (11 cases) indicated that having to report on particular issues had changed their approach and gave examples of how environmental, workforce and even social accounting had become important to the business and in many cases was considered on a daily and regular basis. It was evident that larger businesses are aware of their corporate and social responsibilities and that these are factored into their business plans and corporate ethos, permeating into the day to day monitoring and running of these businesses. This has more to do with size and sector of activity than whether they are listed. For example, there is a high level of awareness amongst perceived high risk sectors such as manufacturing and construction that health and safety and environmental issues require constant attention and not simply one off reporting.

6.4 The Value of Auditing

Four fifths of respondents (25 cases) indicated that having an independent audit has some value for their business. In the majority of cases (18) this referred to validation and giving investors' confidence in the business. Other reasons provided included: market credibility by helping the business to get contracts overseas and with government agencies (2 cases); assisting with the company's credit rating (1 case); and assisting with the company's joint venture strategy (1 case).

7. Key Findings

This chapter presents the key findings from this predominantly MSB in-depth survey of 17 UK stock exchange listed businesses and 14 unlisted businesses. It should be recognised that this is a small scale qualitative survey of senior company executives designed to examine business perceptions about the UK stock exchanges and associated corporate governance and reporting issues. The key findings presented here may not be representative of the wider UK business population, but they may shed some light on issues which are of concern to the wider UK business population.

7.1 Profile of Surveyed Businesses

The surveyed businesses are predominantly Mid-sized businesses (MSBs). Two thirds have at least £25m annual sales turnover and their median employment size is 125 staff. Some smaller rapid growth potential IPOs and recent AIM admissions were included. A high proportion are new technology and R&D businesses (17 cases), reflecting potential and recent UK AIM Initial Public Offerings sectors.

The vast majority of surveyed businesses were growth oriented and performing well, which may reflect some survey bias, given the short notice for senior management interviews.

Four fifths had increased sales turnover in the last year and were trading at higher levels than five years ago and almost three quarters had increased employment in the past five years (median increase of 25 employees).

Growth was strongly related to exports and niche UK market activities (e.g. green energy, digital and infocomms). Three quarters export, with growth markets including high tech sales to OECD countries, and increasing trade within emerging markets in China, India, Brazil, Middle East, Far East and South Africa. Non growers (listed and unlisted), included businesses in restructuring and R&D development phases, with expected up-turns in the near future.

Two thirds, equally distributed between listed and unlisted businesses, anticipate sales and employment growth in the next year. A high proportion of these businesses are seeking strategic growth through acquisitions which will help with technological developments, manufacturing and overseas marketing channels. Whilst three quarters have a current surplus, around two fifths, evenly split between listed and unlisted businesses, will seek to raise external finance during the next year or so. Several listed companies mentioned that they would consider raising additional funds through new share releases on UK stock markets, particularly where considerable investment in developing new markets, notably overseas, was being pursued.

The sample size is small, with no clear evidence that listed companies have performed any better than unlisted companies during the past five years, or will do so in the near future. This finding should be contextualised within the generally growth orientated survey sample.

7.2 Motivations for Listing

Many of the surveyed listed businesses export, but they choose to list on the UK stock exchanges because they are UK owned and based, understand how these stock markets operate (they have clear regulations and costs), believe that they have a high reputation and therefore see them as the natural place list. It was also noted by some companies trading extensively overseas that the London Stock Exchange's Alternative Investment Market (AIM) is internationally recognised and offers a 'lighter touch' than the US markets.

The surveyed listed businesses have joined and used the UK stock exchanges for a variety of reasons and as such are seeking a range of options from UK stock exchanges. This reflects their heterogeneity, notably in terms of their growth plans, position in the business development cycle, and management characteristics. They contain a broad mix of business sectors, trading age, including fast growing young businesses, established MSBs and larger businesses. This is also reflected in their distribution across different UK stock exchanges: six are larger established businesses on the London Stock Exchange, eight are small cap, younger and smaller Mid-sized businesses (MSBs) on AIM and three are established Mid-sized businesses (MSBs) retaining some private holdings that are listed on ISDX (ICAP Securities and Derivatives Exchange).

The choice of UK exchange was mainly driven by market cap size, with those under £100m likely to select the less expensive and less regulatory AIM or ISDX markets, with larger caps selecting the LSE which is more expensive to enter and maintain, and has a higher profile (and trading volume).

The vast majority listed to raise funds to invest in business development, such as strategic acquisitions, particularly for overseas market and technical developments, R&D and restructuring. Strategic acquisitions are important for young growth businesses on AIM and established LSE listed MSBs and these businesses believe that these markets offer an opportunity to raise the substantial amounts of capital required for such activities.

Three businesses listed to raise their profile, mentioning the reputation of the LSE and AIM markets. This enhanced a global retail brand and gave increased credibility for merger and acquisition activities (which did not necessarily require raising funds from the market).

Two businesses joined the ISDX to facilitate share sales. ISDX offered a light touch regulatory exchange, low cost option for businesses with only a proportion of shares publicly trading alongside private holdings ranging from 25% to 80% (in one case with different shareholding status). These businesses were content with a simple market solution with low volume trading, as they were not seeking to raise funds from the market and they may be deterred from remaining listed if the markets standardise and become more regulated.

Five businesses used an Initial Public Offering (IPO) to realise investors' returns and this was a preferred private equity (PE) investor exit strategy prior to the 2007/8 financial crisis.

New technology, rapid growth businesses and exploratory mining and energy companies have floated on the AIM market either because it has been the most suitable or only source of risk capital available to small cap businesses for R&D and business development, or as an exit strategy from existing private equity.

There are signs that since the recession of 2008 there is no longer a belief, amongst those interviewed with the potential to list in the next couple of years, that there is sufficient volume of trading and investor appetite in the AIM market to make an IPO cost effective. These businesses now prefer a trade sale option, as it is less expensive, time consuming and risky. An IPO can take six months to prepare and requires intensive ongoing management, working with brokers, market analysts and asset managers to maintain the share price. There are fears that in the current AIM market there may not be sufficient return to satisfy current PE investors, whereas the returns from a trade sale are fixed. However, if the markets improve in the near future, IPOs may well become more attractive to these businesses.

None of the surveyed listed businesses are likely to delist in the near future. They retain their listing primarily to raise funds, if required and firmly believe that this will be achievable. Whilst a few businesses had not been able to raise the level of funds on the LSE and AIM markets that they had ideally require in recent times (post 2008), they acknowledged that this had been a fair reflection of the business status at the time. Most respondents that had raised funds on the UK stock exchanges indicated that they had raised substantial amounts, assisting R&D, business growth and strategic acquisitions and that this had been the only feasible way to achieve such levels of funding. A good example was a more recent LSE listing which raised £100m for overseas market development. Some listed businesses also referred to this status making it easier to access alternative finance, such as less expensive bank debt finance. In a small minority of cases their listing provides status, raising their profile in the UK and globally and gives credibility in the market to assists sales and also merger and acquisition activity.

7.3 Costs of joining and maintaining a UK stock exchange listing

Joining AIM is an expensive and time consuming process, particularly if the newly listed company wants to stimulate sufficient interest in the market to generate trading volume and raise substantial funds in the current low volume and cautious ‘bear market’. One successful AIM listing was estimated to have cost £2m, with £700,000 spent on preparatory due diligence and promotional work prior to listing. The average AIM flotation costs £250,000 (possibly more depending on the costs of brokerage and underwriting) and there are currently far fewer successful new listings than prior to the global financial crisis (2007/08).

Managing a listed business is very different from being a Plc or private limited company. The evidence is that a considerable amount of management time in listed businesses is taken up with reporting. This is particularly important for businesses that are looking to raise funds from the market by increasing their share prices, since this requires working closely with key intermediaries such as advisors and brokers, analysts, financial PR companies and asset managers to ensure that a positive company narrative is presented to the market and that key institutional shareholders buy into the company strategy.

The typical cost for managing an ISDX listing is relatively low (under £20,000 per annum) because these have until recently not required market advisors and there is relatively low volume trading on the market, with listed companies being relatively passive in their market activities and interactions.

AIM requires a nominated advisor (NOMAD) which can cost upwards of £30,000 per year and is considerably more expensive to operate, with annual costs estimated at upwards of £150,000, which can easily double when internal management time is taken into account and may increase commensurate with the amount of market reporting undertaken (e.g. in broker and analysts costs).

A full LSE listing will cost anything upwards of £250,000 and the largest LSE businesses surveyed estimated that the combination of market intermediary fees and internal management and auditing costs could amount to £1m per year.

Whilst the reported costs for maintaining a listing may appear quite high, they were not perceived as a reason for delisting, although they may have contributed to one surveyed business delisting, where the cost of ad hoc reporting to the AIM market when the business got into trouble was £100,000 for four reports.

7.4 Changes in the operations of the market

The surveyed listed businesses did not report any noticeable changes in the operation of the market or their relationships with key intermediaries in the market in recent years.

It was stressed that it is important for AIM companies to find a good advisor (NOMAD). Advisors are a mandatory requirement of AIM and act both as the regulatory advisor and the introducer to other key market intermediaries, often also operating as brokers. Brokers provide the link with major institutional investors and the general rule of thumb is that the more expensive advisor/brokers can gain access to the higher level institutional investors. It is essential that the advisor/broker understands the nature of the business and is able to guide and promote it most effectively. The recent trend towards consolidation and contraction in the number of broker agencies is potentially reducing the options for finding the most effective assistance.

One delisted business mentioned that whilst NOMADs are extremely helpful to the business during successful times, their position is anomalous during bad times. This is because they have to report to the markets, so when there is bad news they tend to distance themselves, rather than step in and help out.

ISDX companies mentioned that ICAP had acquired this exchange in 2012 and is seeking to bring it more into alignment with AIM by requiring advisors and directing companies towards using services like ‘Crest’ to generate more share volume. This was meeting with some resistance from the older established businesses on the exchange that were surveyed, as all they required was a simple share sale mechanism.

7.5 Short-termism in the market

Few of the surveyed listed businesses have suffered from market short-termism, but there are concerns that the mentality of brokers, analysts and asset managers is short term oriented. They do not stay in post long and are driven by annualised incentives rather than longer term goals. These concerns relate to the stability of younger and less robust smaller cap AIM listed businesses and some larger businesses going through restructuring and lengthy R&D phases that investors are able to buy into the longer term development strategy of the business, rather than focus on short term gains.

Established listed businesses spend a great deal of time working with advisors, brokers and key institutional investors to ensure that they understand their longer term strategies and avoid short-term thinking and pressures.

However, for the younger, more recently listed businesses, there is far more volatility and uncertainty, particularly in relation to AIM listed R&D based businesses, where the development phase can take longer than would be ideal. Even amongst more established LSE companies it was noted that an R&D restructuring phase requires careful management of shareholder expectations and that there are always pressures to provide a suitable balance between dividends and re-investment.

Shareholder engagement is important for LSE and AIM listed companies, who will meet at least twice yearly with key institutional investors at roadshows. In a small number of cases a leading institutional shareholder has a NED role on the board. It was stressed that it is vital to *'clearly articulate policy'* to the main shareholders, ensuring that they have bought into the company strategy, but that these shareholders rarely impact on company policy.

There are also concerns that half yearly reporting for AIM is more than is necessary for young R&D companies and that any move towards LSE style quarterly reporting would be problematic for these businesses, potentially encouraging shorter term thinking and stirring up problems in the market for them. It was noted by a recently delisted company that if the market catches wind of a problem, matters can quickly spiral out of hand and the costs of ad hoc reporting to the market are very expensive.

7.6 Corporate Governance and Levels of Reporting

Listing has led to increased levels of corporate governance through oversight boards such as for audit, remuneration and nominations and also reporting. These activities are largely viewed as necessary forms of accountability to instil shareholder confidence.

Unlisted Plcs and MSBs operating internationally, for the public sector and in high risk sectors such as manufacturing and construction undertake a considerable amount of corporate governance reporting to comply with trade regulations such as environmental and workforce healthy and safety and to gain credibility in the market.

Most PE backed unlisted companies, which already have to regularly report to their investors did not feel that AIM's twice yearly reporting requirements were too onerous.

The vast majority of listed businesses accept the current level of reporting and corporate governance requirements imposed on them. Whilst few would like to see an increase in the level of reporting and most feel that this is inevitably going to happen (e.g. with the introduction of carbon emissions, new narrative reporting requirements, International Financial Reporting Standards (IFRS) and general market standardisation), there is a general acceptance. However, simplification of reporting would be welcomed and it was noted that it is the '*light touch'* of AIM that attracts smaller cap businesses to list in the first place.

There are some complaints about the level of financial reporting, with the suggestion that elements such as exchange rate calculations are superfluous and that quarterly reporting for smaller cap businesses on the full LSE market are unnecessary. There were concerns that the LSE main board requirements should not be pushed down on the AIM market and that quarterly reporting on the AIM market would be counter productive and potentially stimulate short-termism.

The one fundamental difference raised between public listed and unlisted businesses is the extent of reporting into the public domain. This was perceived by some respondents as onerous and problematic. One recently AIM listed company did not like reporting information that could give their competitors an advantage, whilst several unlisted businesses mentioned that their directors would not be comfortable with the directors' reporting, *'the stress of dealing with what can and cannot be reported in the public domain'* and remuneration disclosure requirements.

Listed businesses are paying considerably more in reporting costs than the unlisted businesses surveyed. LSE businesses can pay £500,000 per annum and for AIM businesses it may be upwards of £100,000 per annum, with these figures doubling if internal management time and costs are taken into account. Although high, these businesses claimed that it was worthwhile and some smaller AIM and ISDX businesses claimed these costs are not that much more than if they were unlisted. Smaller unlisted businesses were paying less than £20,000 for annual reporting.

For unlisted businesses, perceptions of the cost and time taken to undertake reporting are potentially a deterrent to listing and would be carefully balanced against the state of the UK stock exchanges and perceived ability to raise funds through listing.

Four fifths of respondents indicated that an independent audit adds value to the business, helping with market credibility, for example to gain international and government contract work, and investor confidence.

7.7 Deterrents to Listing

Overall there is a marked dichotomy between currently listed businesses and unlisted businesses which strongly reflects the different management philosophies of these types of businesses with regard to business development, raising finance and investor relationships.

Listed businesses are satisfied with the current status quo and are not deterred from listing by the current levels of reporting and costs involved in remaining listed. This was particularly the case for the surveyed larger premium listed LSE companies, with a market cap of well over £100m.

None of the listed companies exhibited any likelihood that they would delist in the near future. There was unanimity of opinion that the respective UK stock exchanges were operating effectively for the purposes of the surveyed businesses – *'they still offer value for* *money'*. However, there is also general consensus that they do not want to see increasing reporting requirements.

Conversely, unlisted companies and those that have delisted are deterred by the apparently high levels of reporting and the amount of time and costs this entails. These views may be driven in part by a lack of belief that the UK stock markets can offer a viable return at present.

The unlisted companies are characterised by long established family and individual private ownership that have no interest in listing, preferring organic growth through reinvesting retained profits, or bank finance. There were also some cases where private equity is preferred because the shareholders are small in number and known.

Amongst the unlisted companies that would consider an IPO, including some of the younger high growth businesses, the main deterrents were time and cost, with AIM being considered as *'expensive to enter'*, requiring considerable ongoing management time and burdensome reporting. The latter point was less important to PE backed businesses. There were also some concerns around the levels of public disclosure, particularly with regard to reporting on business plans which could assist competitors and directors' reporting (e.g. remuneration).

7.8 Reasons for Delisting

The three businesses surveyed that had delisted in recent years did not do so as a direct result of the stock exchanges and include delistings from AIM the LSE and New York Stock Exchange. The primary cause for delisting related to the performance of each business and their restructuring requirements. In one case this encouraged a private equity buyout, whilst in the other two cases their poor performance led to a delisting to enable trade sales of part of the businesses.

For these businesses, operating privately offered a more stable environment, with greater focus on managing business recovery, rather than trying to manage the stock markets. In all three cases the demands of reporting and dealing with the markets created a time and cost burden that would serve as a deterrent to them becoming listed again.

The cost of failure in the AIM market can be considerable. If a business gets into trouble, it may be required to provide ad hoc market reports, which can cost £25,000 per report. This can become an expensive activity for a struggling business, but delisting can cost more than the original listing, particularly in relation to advisor costs associated with exit and trade sale. The costs associated with the failure of an agency to find a successful trade sale resulted in the liquidation of one of the surveyed businesses.

7.9 Remuneration and the Shareholder Spring

Few respondents had strong views about the 'Shareholder Spring'. Most suggested that it had made no difference to them, indicating that their businesses were too small, or that they have independent remuneration committees and total transparency with their shareholders and that ultimately the shareholders have in almost all cases unanimously voted acceptance of their remuneration packages. Only in one case, where the company prior to listing had a generous executive bonus scheme which had subsequently been curtailed, had listing affected executive salaries.

There were some concerns that the UK government should not try to impose a one size fits all proportional cap on the executive salaries of all big business (e.g. LSE listed) across different sectors, for example comparing manufacturing output with financial services outcomes is not helpful. There are also concerns that these regulations may over time apply to other listed businesses. They are particularly concerned if this prevents businesses from recruiting the high calibre executives that could help them to grow.

7.10 Board Composition and Diversity

Listed and PE backed companies were more likely to have larger boards and regular monthly board meetings than the unlisted family and individual owned MSBs surveyed. This is mainly due to the larger shareholder base and accountability requirements in equity backed businesses and can lead to major shareholders holding non executive direct posts on their boards.

Non executive directors (NEDs) make up nearly half (46.5 per cent) of the membership of boards in the surveyed businesses. NEDs make up over half (55%) of the board membership in listed companies, compared with 44 per cent in Plcs and private equity backed companies and under one in five (17.5 per cent) of other privately owned businesses.

Only one in ten members of boards in the surveyed businesses were women, with a slightly higher proportion in listed companies (11.5%) than in Plcs and private equity backed companies (10%), which have nearly twice the level of female representation of other privately owned businesses (6%).

Whilst there was some favourable reception to the Davies Review from larger listed LSE companies, the vast majority of respondents (who were male) were opposed to the introduction of quotas, suggesting that executive recruitment should be based on merit. It was acknowledged by several respondents that diversity in a broader sense, including ethnicity and age, is a good thing and that this would encourage recruitment from a wider talent pool.

References

AIM (2013) AIM Market Fact Sheet, Monthly Report from the AIM Stock Exchange
http://www.londonstockexchange.com/statistics/historic/aim/feb-2013.pdf

AIM (2012) AIM Market Fact Sheet, Monthly Report from the AIM Stock Exchange
http://www.londonstockexchange.com/statistics/historic/aim/feb-2013.pdf

BIS (2009) Results from the 2009 Finance Survey of Mid-cap Businesses URN 10/635
http://www.bis.gov.uk/assets/BISCore/enterprise/docs/10-635-2009-finance-survey-mid-caps.pdf

BIS (2010) Follow-up Research into Mid-Cap Businesses having difficulty raising Bank Finance, CEEDR Report to the Department for Business Innovation and Skills, December URN 10/1353
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32237/10-1353-follow-up-research-mid-cap-businesses-difficulty-bank-finance.pdf

BIS (2011) Research into Mid-Size Business Growth, CEEDR Report to the Department for Business Innovation and Skills, November
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32109/11-1409-research-mid-size-business-growth.pdf

BIS (2011a) Analysis of Mid-sized Businesses
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/16419/MSB-BIS-demographics.xls

BIS (2012) Ensuring Equity Markets Support Long Term Growth: The Government Response to the Kay Review
http://www.bis.gov.uk/assets/biscore/business-law/docs/e/12-1188-equity-markets-support-growth-response-to-kay-review

CA (2006) Companies Act 2006, UK Government, Chapter 46
http://www.legislation.gov.uk/ukpga/2006/46/pdfs/ukpga_20060046_en.pdf

Davies Review (2011) Women on Boards.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31710/11-745-women-on-boards.pdf

FRC (2012) The UK Corporate Governance Code, Financial Reporting Council, September
http://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-September-2012.aspx

Herald Scotland (2012) Bill for delisting Scottish confectioner Lees snowballed to almost £1m, 30/06/2012 http://www.heraldscotland.com/business/company-news/bill-for-delisting-scottish-confectioner-lees-snowballed-to-almost-1-million.18022722

IFB (2011) Institute for Family Business annual Report
http://www.ifb.org.uk/media/49944/final_version.pdf

IFB (2011a) UK Family Business: Working to Grow the Economy, Institute for Family Business Report

LSE (2013) Main Market Fact Sheet, Monthly Report form the London Stock Exchange, February
http://www.londonstockexchange.com/statistics/historic/main-market/main-market.htm

LSE (2012) Main Market Fact Sheet, Monthly Report form the London Stock Exchange, December
http://www.londonstockexchange.com/statistics/historic/main-market/main-market.htm

New Bridge Street (2013) Executive Pay Benchmarking
http://www.newbridgestreet.com/services/executive-pay-benchmarking/

pH (2009) Sample of Mid-Cap Businesses, produced by pH (Experian Group).

QCA (2011) Response to the Kay Review Call for Evidence, from the Quoted Companies Alliance
http://www.theqca.com/article_assets/articledir_100/50162/QCA%20Response%20to%20BIS%20-%20Kay%20Review%20-%20Nov11.pdf

Stikeman Elliott (2011) Guide to Listing on AIM
http://www.stikeman.com/en/pdf/aim_guide_to_listing.pdf

The Kay Review (2012) The Kay Review of UK Equity Markets and Long Term Decision Making, July
http://www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf

Annex I - Aim Market Size, Listings Admissions And Delistings 2012

	Admissions	%
Total	71	100
UK	47	67
Overseas	24	33
	Delistings	
Total	120	100
By Request*	78	65
Reverse Takeover	18	15
Rule 1 (no advisor)	7	6
Rule 41 (cancellation)	10	9
Transfer to main market	2	2
Miscellaneous	5	4
	Market data	
Total AIM Listed Companies	1068	100
Overseas	207	20
Market cap £25m+	464	43

Sources: AIM 2012 monthly reports and LSE main market statistics December 2012

*Note: The financial status of these companies is not published in the monthly AIM market report, but further analysis indicated a high proportion of these companies appear to be leaving the market because of difficulties which may well lead to liquidations. The research team focused on businesses delisting from AIM by request during the past five years, selecting circa two hundred businesses which appeared likely to be UK based. In practice well over half of these selected businesses were unsuitable; 15% could not be traced, 25% were foreign owned and 15% were far too small in terms of sales turnover and market cap. The remainder were contacted by letter, telephone and email, but in most cases were in distress and refused to participate, or ignored requests. Where contact was established a common response was that the management were far too busy trying to save the business to speak to a researcher.

Annex II - Survey Topic Guide

Respondent profile details:

1 What is your role at the company?

2 How long have you been in post/with the company?

Company profile characteristics:

3 Please describe the main activities of your business? (sector classification)

4 How long has the business been trading for?

5 What is the legal status of the company?

6 What is the ownership structure of the business?

Probe for:

Have there been any changes in ownership in the past 5 years? If yes, please detail?

Is the business family owned? If yes, what share does the family own?

Is the business part of a larger parent organisation? If yes, who is the parent company and where is their Head Office?

Where foreign owned: Is the UK business a separate profit centre?

7 How many people are currently employed in the business? (obtain breakdown for UK and overseas, or by company/divisions, where appropriate)

8 What was the most recent annual sales turnover for the business? (obtain breakdown for UK and overseas, or by company/divisions, where appropriate)

Business Performance - during the past 5 years

9 Has the business been growth seeking in the last 5 years? If so, in what ways?

10 How has the business performed over the past 5 years? Probe for cyclical changes

Specifically, check (for company and parent company, where relevant):

Sales Turnover:
(i) Last completed financial year
(ii) The previous completed financial year
(iii) Five years ago (or nearest approximate, check trading age)
(iv) Forecast for next financial year?

Employment:
(i) Current employment
(ii) Employment one year ago
(iii) Employment 5 years ago (or nearest equivalent)
(iv) Forecast employment for next year?

Balance sheet:
(i) Total assets on balance sheet in last financial year
(ii) Total assets on balance sheet in previous year
(iii) Total assets on balance sheet 5 years ago (or nearest equivalent)
(iv) Forecast total assets in next financial year?

11 What is the current balance sheet surplus (reserves) on the company balance sheet and how has this changed in recent years?
(i) Current balance sheet surplus
(ii) In the past year
(iii) Over the past 5 years

12 What do you forecast the company's balance sheet surplus to be at the end of the next financial year? If expected surplus, what is its intended use?

13 Is the company aiming to grow during the next year? If yes, in what ways and how?

14 Are there any plans for raising company finance during the next year or two?

15 What proportion of your company's trade is export based?

16 How has the company's proportion of overseas trade changed in the last 5 years? (probe on main overseas markets)

17 What proportion of trade do you forecast will be in exports in one year's time? (probe on key market developments)

Current listing status

18 What is the stock exchange listing status of the company? If listed:
(i) Public Company with a Premium Listing on the London Stock Exchange Main Market;
(ii) Public Company with a Standard Listing on the London Stock Exchange Main Market (or on the equivalent ISDX Main Board);
(iii) Public Company which is publicly-traded on another UK exchange or trading facility (London Stock Exchange AIM market or the ISDX Growth Market)

(iv) Public Companies which are not publicly traded.
(v) Private Companies which have previously been in categories 1-4.
(vi) Private Companies which have never been in categories 1-4.

Additionally:
(i) Is the company dual listed?
(ii) Is the company listed on any foreign exchanges?

- If not a main listing exchange (i.e. FTSE & AIM), please detail the nature of the listing/public quote (e.g. on ISDEX/futures, commodities index, etc)? Are there special arrangements which limit/affect public share availability? (i.e. controlling shareholder arrangements, 'unequal' shareholder powers etc. Probe on 'Listed, Traded, Quoted' status.)

- If trade extensively overseas, why did you choose to list in the UK?

Motivations for and details of Listing:

(A) Listed Companies

How long has your company been listed?

What were the main reasons behind your decision to list your company?
(e.g. tax, corporate governance, ease of raising finance, reputation, probe other…)

Why did you choose to list in the UK?
(e.g. reputation, cost, target market, ease of raising finance, probe other..)

Was money raised through listing used:
(a) to fund an acquisition
(b) to fund company restructuring
(c) to fund physical capital investment in plant, property etc.
(d) to fund R&D or project development
(e) to fund staff training
(f) to fund marketing
(g) to build a cash reserve to fund future investment
(h) to raise funds to realise previous private investor returns
(i) other – please explain

To what extent do you engage with shareholders (type, frequency, etc) and how useful is this for management decisions/company strategy?

Why does the company remain listed?

What proportion of shares has your company bought back:
(i) in the last year
(ii) in the last 5 years

Do you have an intention to delist? If so, why is this the case?

Can you foresee any reasons why you might delist (probe for detail on circumstances)?

If considering/intending to delist, please explain and prioritise where several reasons (e.g. cost, regulatory burden, reporting, impact of short termism, better opportunities to list elsewhere)?

Are there any changes you would like to see to the way in which equity markets and company listings operate? (Probe on areas such as: tax breaks, regulations, reporting requirements, reduced costs, quality benchmarking of exchanges etc.)

Has your company suffered from equity market short-termism? If so, in what ways (e.g. high frequency trading, short selling, lack of management engagement with investors)?

If AIM listed, what has been your experience of nominated advisors (NOMADs)? (probe on cost and quality issues associated with these advisors)

(B) Planning to List:

Are you planning on listing your company? If yes:

(i) Will this be in the UK? Or will choose an exchange elsewhere?
(ii) Why are you considering listing in the UK, or elsewhere?
(e.g. reputation, cost, target market, ease of raising finance, probe other..)
(iii) On what UK exchange will you list and why?
(iv) What are your reasons for seeking to list? (e.g. company profile, to raise finance for project/R&D, etc..)
(v) Has the example of any other business in your sector acted as a spur for you to consider listing?
(vi) Is the company facing particular pressures or drivers to list? If so, please detail?
(vii) Are there any particular reasons that might deter you from listing in the UK? (e.g. costs, regulatory burden)

(C) Delisted Companies:

If delisted:

(i) When did delisting take place?
(ii) From which exchange?
(iii) What were the main reasons?

If delisted, were there any particular factors about the exchange regulations/requirements/taxation that caused you to delist?

Were there any factors which you found particularly problematic? (e.g. the role of NOMADs in AIM, over rigorous requirements of Primary FTSE listing, or conversely insufficiently high standards for quality assurance to attract investors)

Have there been any downsides of delisting? (e.g. loss of company profile, finance, sources of external management guidance)

(D) For Never Listed, delisted and planning on listing

What are the (perceived or actual) costs/impacts of listing?

Probe on possible examples:

- no control over shareholder base,
- opaque ownership,
- lack of shareholder engagement,
- regulatory burden (to list and to operate)
- reporting issues and costs
- time/management resources
- scrutiny and transparency issues
- pay constraints
- loss of control
- vulnerability to market fluctuations/short-termism
- initial cost of establishing a listing (use of financial and associated intermediaries/services – legal & accountants)
- ongoing costs for maintaining a listing (see reporting, below)

Where multiple answers (above), please prioritise in order of most concern?

What is your primary source of finance for your company and its investment? Do you have access to other sources? (obtain breakdown of finance and sources - note previous information on balance sheet surplus and intended use).

Can you foresee any changes in the market, or your business, that would lead you to consider listing?

If the company is a Plc, but is not listed, why is this the case?
(i) Have your shares traded on other markets? If so please explain.
(ii) What value/benefits does the company receive from being a public unlisted company (as opposed to a private company)?
(iii) Why do you choose not to become a private company?

To all unlisted companies: Have corporate governance requirements (or related Company Law), deterred your company from becoming public or quoted, because of perceived additional burdens which are too off-putting? If this is the case, please detail which burdens are most off-putting? (e.g. regulations, reporting requirements, transparency, associated costs etc.)

To all surveyed businesses

Corporate Governance:

Who is responsible for corporate governance policy in your company?

How does listing/not listing /delisting impact upon:

(i) Corporate governance?
(ii) The number and/or length of board meetings?
(iii) The extent of shareholder engagement?
(iv) Company strategy?
(v) The balance between short term and longer term focus?
(vi) Change the measures/metrics used to assess/monitor company performance?

What are your views on the role/cost/benefit of players (e.g. asset managers, investors/traders, regulatory authorities, accountants/auditors, lawyers, advisors/NOMADS etc.) in the investment chain?

- Probe on various players and the merits of their assistance and charges

Has the form of engagement with players in the investment market changed?

How has listing benefitted/impeded long term business investment?

Are there any changes you would like to see to the corporate governance framework? Probe for details (types and changes and how effected)

How have your views on the equity market changed since the 'shareholder spring'?

To what extent are the additional corporate governance requirements associated with listing a deterrent against listing/an incentive to de-list?

Board Composition, Women / Diversity:

What is the composition of your board (with exec and non-exec split)?

How many women are on your board?

What are the various roles of women on your Board?

What are your views on board diversity more generally (e.g. composition of board membership including women, ethnic minorities, overseas investors, non executive director roles etc.)? What benefits are there to this diversity?

Has listing influenced board appointments?

How many other board positions do your board members typically hold on average?

Have you set targets for the number of women you expect to have on your board in 2015, as recommended by the Davies Review?

Do you have a diversity policy in place for your board, and the organisation as a whole?

Executive Pay:

For unlisted companies:

How might your remuneration practices change were you to become a listed (quoted) company?

For listed (quoted) companies:

How do you envisage remuneration practices changing as a result of Government reforms, shareholder pressure, and public interest in this issue?

Reporting – narrative and financial:

To what extent are the additional reporting requirements associated with listing a disincentive to list? (may be already answered)

What are the approximate costs of such reporting (on an annual basis)?

Do you think that having to report on an issue changes the way in which your company approaches it? (e.g. environmental issues)

Audit:

What are the benefits of audit to your company?

Who conducts your Company Audit (company name – check before interview)?

Completion of Interview:

What are the main points relating to UK listing that you would like to emphasise to government?

Are there any further points not yet raised, that you would like to mention in relation to UK stock exchange listing?

Acronyms

4G Infocomms technology – 4th generation information and communication technologies

AIM - London Stock Exchange's Alternative Investment Market, an international market for smaller growing companies
http://www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm

BRICS countries – Brazil, Russia, India, China and South Africa
http://www.globalsherpa.org/bric-countries-brics

CEO Chief Executive Officer

CFO Chief Financial Officer

FD Financial Director

FSA – UK Financial Services Authority

IFRS -International Financial Reporting Standards

IPO - Initial Public Offerings

ISDX – ICAP Securities and Derivatives Exchange
http://www.isdx.com/

LSE - London Stock Exchange
http://www.londonstockexchange.com/home/homepage.htm

MSB – Mid-sized businesses

NEDs – Non Executive Directors

NOMADs - Nominated advisors

OECD – Organisation for Economic Co-operation and Development (34 countries)
http://www.oecd.org/unitedkingdom/

PE- private equity

Pharma - Pharmaceutical

Plc - Public Limited Company

SIC 2007 – Standard Industrial Classification

This publication is also available on our website at www.gov.uk/bis

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

BIS/13/1130